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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Director(s)**") of AAC Technologies Holdings Inc. ("**AAC Technologies**" or the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2023 ("**1H 2023**") together with the comparative figures for the corresponding period in 2022 ("**1H 2022**").

These unaudited condensed 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 24 August 2023.

2023 INTERIM RESULTS HIGHLIGHTS (UNAUDITED):

(RMB Million)	**1H 2023**	1H 2022	*YoY%*
Revenue	**9,219**	9,412	*-2.0%*
Gross Profit	**1,297**	1,783	*-27.2%*
Gross Profit Margin	***14.1%***	*18.9%*	*-4.8ppts*
Net Profit*	**150**	350	*-57.1%*
Net Profit Margin	***1.6%***	*3.7%*	*-2.1ppts*
Basic EPS (RMB)	**0.13**	0.29	*-56.4%*
Share Numbers (Weighted average, million)	**1,182**	1,200	

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

BUSINESS AND MARKET REVIEW

For 1H 2023, the Group's revenue amounted to RMB9.22 billion, representing a decrease of 2.0% year-on-year ("**YoY**"). Against the backdrop of global macroeconomic uncertainties, the Group has made steady progress in business development and constantly improved operational efficiency and cash flow. The Group's diversification strategy has started to show some promising results. Gross profit margin of 1H 2023 was 14.1%, down 4.8 ppts YoY. The decrease was mainly due to the still-weak demand in the global smartphone market in the first quarter 2023 ("**Q1 2023**") as well as an increase in the proportion of revenues from businesses with lower gross profit margin, while the gross profit margin in the second quarter ("**Q2 2023**") has significantly improved quarter-on-quarter ("**QoQ**"). Net profit for the reporting period was RMB150 million, representing a decrease of 57.1% YoY.

For 1H 2023, the Group's operating cash inflow amounted to RMB2.05 billion, up 43.1% YoY. As at 30 June 2023, cash balance was RMB7.13 billion, which remained at a similar level to that as at 31 December 2022. The Group's total debt (including total loans and unsecured notes) declined by approximately RMB575 million (net gearing ratio stood at 4.9%, 1.3 ppts down compared to that as at 31 December 2022). During the reporting period, capital expenditure amounted to RMB616 million, representing a decrease of 42.0% YoY. The inventory turnover days decreased to 91 days as at 30 June 2023 from 109 days for 31 December 2022. The prudent financial position and abundant liquidity are essential to the sustainable growth of the Group, and ensure the Group's ability to continue to innovate and develop going forward. The Group will continue to allocate its capital expenditure and control expenses in accordance with its long-term growth plan to ensure cash sufficiency to support the future development of its business. The Group will continue to stringently manage inventory levels and continuously improve operational efficiency and business management capabilities to reduce costs and increase efficiency.

After careful discussion, the Board has resolved not to declare an interim dividend for 1H 2023 (2022 interim: Nil). The Board will implement a final dividend policy.

PERFORMANCE AND DEVELOPMENT OF BUSINESS SEGMENTS

Acoustics Business

For 1H 2023, the Group's acoustics business recorded a revenue of RMB3.32 billion, representing a decrease of 19.9% YoY. This was mainly due to the weaker-than-expected recovery of the global smartphone market demand which continued to cause the YoY decline in shipment. Gross profit margin was 25.5%, down 1.7 ppts YoY, which was mainly due to the increase in unit costs resulting from the lower shipment volume caused by the weak demand in Android market in Q1 2023.

In 1H 2023, the recovery of demand in the Android market still faced certain pressure, and downstream handset manufacturers continued in destocking, which posed a negative impact on the Group's Android-related acoustic business, resulting in a YoY decline in its revenue and gross margin. Given the solid business connection with overseas customers that has strengthened over the years, the Group has been able to maintain a relatively stable market share with the customers and continues to work closely with customers in technological innovation. Facing uncertain market environment, the Group has continued efforts in reducing cost and improving operational efficiency as well as ramping up revenue contribution from new products. In 1H 2023, the Group launched its proprietary integrated acoustic solutions with a full range of audio system design services to create an immersive sound experience for users. In the future, the Group will continue to create superior audio experiences for consumers in more diversified applications through a broader product portfolio.

Optics Business
For 1H 2023, the Group's optical business recorded a revenue of RMB1.77 billion, representing a decrease of 4.4% YoY. This was primarily due to the weak market demand and ASP pressure in Q1 2023. In Q2 2023, the revenue and gross margin improved QoQ notably, which was largely attributable to increasing market demand, growing shipment and mitigating competition in ASP.

During the reporting period, the Group continued to implement the strategy of premiumization and optimize its product portfolio. Meanwhile, the Group has strengthened inventory management and actively improved internal management and operational efficiency to reduce cost. According to the report of International Data Corporation ("**IDC**"), global smartphone shipments declined by 14.6% YoY in Q1 2023, and by 7.8% YoY in Q2 2023, with the intensity of competition in the smartphone optics market lessening compared to the second half of 2022. During the period of market demand recovery, the Group has secured more market share in high-end products through technological upgrades. With respect to plastic lens, the shipment contribution of 6P products has ramped up to over 10% in total plastic lens shipments, driving the improvement in overall ASP of plastic lens. With respect to the optic modules, the Group has increased the shipment volume of modules with upgraded specifications, such as optical image stabilizer (OIS) modules. Wafer-level glass (WLG) hybrid lenses are making good progress, with array lenses, cylindrical mirrors and prisms making their debut at the Mobile World Congress in Shanghai in 2023. With respect to virtual reality (VR), the Group's 3P Pancake solution accomplished mass production in 1H 2023; and with respect to augmented reality (AR), the Group has teamed up with Dispelix, a leading optical waveguide manufacturer, and has successfully developed a new generation single-layer full-colour optical waveguide lenses, which will support the continuous development in the extended reality (XR) industry. In addition, the Group is actively deploying the development in industrial optics and has achieved sales breakthrough in fields such as industrial testing, semiconductor and life sciences, which will further support the Group's diversified development in optics business.

Electromagnetic Drives and Precision Mechanics Business
For 1H 2023, the consolidated segment recorded a revenue of RMB3.62 billion, representing a YoY increase of 23.4%, which was mostly attributed by the steady growth in electromagnetic drives business on the back of rapid development of the smartphone and notebook metal casing business. Gross profit margin of this consolidated segment was 19.3%, representing a decrease of 1.2 ppts YoY, mainly due to the change in product mix resulting from the increase in the proportion of revenue of the precision mechanics business.

Electromagnetic Drives Business
In 1H 2023, the Group maintained stable market share in overseas customers. Despite the lower global smartphone shipments, the Group has seen a further expansion in market share with a significant increase of 63.2% YoY in the total shipments of Android haptics products. Riding on its advantages of fast response and better performance in vibration frequency and conversion efficiency, the Group's x-axis haptics motors have been adopted in more models launched by major global smartphone brands. The Group's haptics products have been expanding into other non-smartphone dimensions such as trackpads, game controllers, and VR devices. For example, the Group has achieved remarkable results in the 6DoF VR joystick interaction and positioning solutions, where the hardware products are paired with RichTap® hardware+software integrated haptics solution, to provide users with a multi-dimensional, full-scene and high-quality tactile feedback experience. Given the future trend of hardware intelligence, we believe that the increasing demand for superior haptics feedback will allow for a broader application of the Group's haptics products in more strategic new markets.

Precision Mechanics Business

In 1H 2023, the Group's smartphone metal casing business continued to expand and maintain a leading market share among high-end and flagship models of major customers and revenue from this segment went up by more than 40% YoY, benefiting from the Group's years of efforts in advancing its capabilities in precision manufacturing, production line automation and quality control. Benefitting from the Group's expansion in market share, the utilisation rate of metal casing products continued to climb and the gross profit margin improved YoY. The Group will persist in the strategy of premiumization for the metal casing business and continues to explore high-value projects to enhance profitability. During the reporting period, the Group has achieved an extremely lightweight and robust folding experience in its customised hinges through the usage of new materials, innovative processes and revolutionary structures. The Group also provided customers with ultra-thin and ultra-large vapor chamber and participated in the research and development of annular cold-pumping heat dissipation technology, which substantially improved the cooling capacity of smartphones.

Meanwhile, revenue from the PC market also increased by more than 40% YoY. In 1H 2023, the global personal computer (PC) market demand is still relatively lacklustre and IDC data shows that the traditional PC market (including desktop, notebook and workstation) global shipments fell by 29.0% and 13.4% YoY in Q1 2023 and Q2 2023, respectively. Despite such unfavorable macro environment, precision mechanics business continued to deliver good results. During the reporting period, the Phase II plant in Yangzhou has successfully commenced production. The Group will keep on deepening its cooperation with overseas customers, actively acquire new projects, and accelerate its pace in expanding its domestic and overseas production capacities, with the aim of further ramping up the revenue contribution from Toyo Precision and the overall profitability of this business segment.

Sensor and Semiconductor Business

For 1H 2023, revenue from the sensor and semiconductor business amounted to RMB494 million, up 3.2% YoY, mainly due to the increase in shipment volume. This business segment accounted for approximately 5.4% of the Group's total revenue. Gross profit margin was 11.3%, down 2.4 ppts YoY, primarily caused by the decline in ASP of certain products as a result of the temporarily intensified competition.

In 1H 2023, the Group continued to promote its proprietary MEMS microphones through its structured design to enhance product reliability, and through its differentiated design to satisfy customers' various design specification requirements. The production capacity of the Malaysian plant is gradually strengthening, synergising with Nanning and Shenzhen plants to form a comprehensive domestic and international manufacturing presence to agilely meet customers' needs. As the global smartphone market was undergoing a weaker-than-expected recovery in the first half of the year, the Group focused on upgrading its MEMS microphones to deliver higher performance and provide better signal-to-noise ratio, while gradually expanding into non-smartphone sectors, such as automotive, TWS, smartwatches/bracelets and AR/VR. With respect to the automotive industry, the Group has successfully developed a full set of new modules for automotive MEMS microphones, including audio microphone modules, E-call modules, waterproof microphone modules and vibration sensor modules, which can fully satisfy the functional requirements of zoned calls, voice control, active noise reduction, emergency vehicle monitoring, etc. Such product line has accomplished the whole process localization from the design of sensor chips to the manufacturing and packaging stages. As of the date, the Group has started cooperation with the worldwide leading automotive manufacturers and expects to mass-produce the relevant new products in 2023. The Group's MEMS microphone has ranked top among its competitors in terms of shipment volume and it is expected that the wave of intelligence will drive increasing demand for intelligent audio interaction in fields such as artificial intelligence and smart home appliances, and MEMS business will foresee more market development opportunities.

STRATEGY DEVELOPMENT AND OUTLOOK

In August 2023, the Group entered into an agreement to acquire Acoustics Solutions International B.V. which owns and operates Premium Sound Solutions ("**PSS**"), a leading global provider of premium audio systems with over 50 years of history. With a rich history of innovation and a strong track record of delivering quality products, PSS is a Tier 1 supplier to a diversified base of global automotive original equipment manufacturers and provides speakers and modules for premium consumer audio brands.

The Group intends to preserve the operational autonomy of PSS and further foster its leadership in the premium segment, whilst gradually implementing positive enhancements aimed at broadening the available selection of products to be offered toward end-to-end audio systems. The Group started its activities in automotive in 2021 and PSS will help the Group to accelerate its strategic diversification and expansion of its suite of audio solutions for the automotive segment. PSS, combined with the Group's existing capabilities, will better position the Group for future growth in the broader and rapidly evolving market, using technology advantages to empower customers and provide better infotainment and sensory experience for consumers.

The year of 2023 marks the Group's 18th anniversary of its listing in Hong Kong. Since its listing, the Group has grown from a precision components manufacturer to a global leader in sensory experience solutions, with strong overall competitiveness in the fields of acoustics, optics, haptics, sensors and semiconductors as well as precision mechanics. Looking ahead, the Group will continue to solidify its market-leading position in the smartphone industry while leveraging on its cutting-edge capabilities accumulated over the past three decades to explore the broader and more diversified non-smartphone market space.

FINANCIAL REVIEW

Revenue

1H 2023 Group revenue decreased YoY by 2.0%, to RMB9.22 billion. Owing to factors discussed under "BUSINESS AND MARKET REVIEW" above, revenue from the acoustics and optics business decreased by RMB824 million and RMB81 million respectively, while electromagnetic drives and precision mechanics increased by RMB687 million. The sensor and semiconductor business was relatively stable as compare with the same period of last year.

Gross Profit and Gross Profit Margin

1H 2023 gross profit was RMB1.30 billion, representing a decrease by 27.2% from the gross profit of RMB1.78 billion in 1H 2022. The drop in gross profit was mainly contributed by market competition in optics and acoustics business and the decline was partly offset by the improved gross profit of precision mechanics.

Gross profit margin decrease to 14.1% in 1H 2023 as compare with 18.9% in 1H 2022. The decrease in gross profit margin was mainly contributed by the decreased sales from acoustics business with higher gross profit margin and margin decrease in optics business.

Other Income, Gains and Losses

The net other income/gains increased by RMB124 million. This was mainly contributed by the gain on repurchase of unsecured notes of RMB78 million and increase in interest income of RMB87 million. The increment was offset by the decrease in government grants of RMB57 million.

Administrative Expenses

Administrative expenses in 1H 2023 were RMB435 million, 3.6% lower, compared with RMB451 million in 1H 2022. The decrease was mainly contributed by the decrease in professional fees.

Distribution and Selling Expenses

Distribution and selling expenses of RMB217 million in 1H 2023, increased by 3.4%, compared with RMB209 million in 1H 2022. The increase was mainly contributed by the increase in staff related cost, while was partly offset by the decrease in delivery and shipping expenses.

Research and Development Expenses

R&D expenses in 1H 2023 were RMB675 million, 7.2% lower than RMB727 million in 1H 2022. The decrease was primarily attributable to improved cost efficiency in research and development.

Finance Costs

Finance costs in 1H 2023 remained stable at RMB204 million.

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 1H 2023 amounted to RMB127 million, representing a decrease of 10.6% from RMB142 million in 1H 2022. The decrease was mainly due to RMB24 million reduction of deferred tax charge relating to tax losses and other temporary difference from RMB40 million.

Profit attributable to the Owners of the Company

Reported profit attributable to the owners of the Company for 1H 2023 was RMB150 million, a decline by 57.1% compared with RMB350 million in 1H 2022. The decline was mainly due to the decline of gross profit which was partly offset by the increase in net other income/gains, exchange gain incurred during the period and the decrease in operating costs and non-controlling interests.

Earnings before Interest, Taxes, Depreciation and Amortization

As compare with the same period of last year, the EBITDA for the 12-month period ended 30 June 2023 decreased by 2% to RMB4,031 million.

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 six months ended 30 June	
	2023	2022
	RMB million	*RMB million*
Net cash from operating activities	**2,053.5**	1,434.9
Net cash used in investing activities	**(504.2)**	(1,180.0)
Net cash used in financing activities	**(1,363.3)**	(1,128.4)

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 RMB2,053.5 million for 1H 2023 (1H 2022: RMB1,434.9 million).

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

As at 30 June 2023, turnover days of trade receivables increased by 12 days to 90 days as compared to 31 December 2022. Trade receivables increased by RMB0.49 billion to RMB4.77 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 RMB4,346.6 million (31 December 2022: RMB4,098.4 million), RMB413.6 million (31 December 2022: RMB169.8 million) and RMB9.9 million (31 December 2022: RMB10.5 million) respectively. The Company has received subsequent settlement totaling RMB1,804.8 million up to 31 July 2023, representing 37.8% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days decreased by 4 days to 77 days as compared to 31 December 2022. Trade payables increased by RMB0.23 billion to RMB3.48 billion. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB2,798.6 million (31 December 2022: RMB2,576.8 million), RMB656.6 million (31 December 2022: RMB654.9 million) and RMB19.9 million (31 December 2022: RMB11.2 million) respectively.

ii. ***Inventory Turnover***

As at 30 June 2023, the inventories have decreased by RMB0.91 billion compared to 31 December 2022. The inventory turnover days decreased to 91 days as at 30 June 2023 from 109 days for 31 December 2022.

Investing Activities

Net cash used in investing activities in 1H 2023 amounted to RMB504.2 million (1H 2022: RMB 1,180.0 million). It mainly represents the cash used in capital expenditures ("**CAPEX**") of RMB714.9 million (1H 2022: RMB1,121.7 million), addition of intangible assets of RMB151.7 million (1H 2022: 98.2 million) and acquisition of financial assets at FVTPL and equity instruments at FVTOCI of RMB114.2 million (1H 2022: RMB76.6 million), offsetting by the cash inflows arising from the government grants of RMB12.3 million (1H 2022: RMB133.3 million) as well as the withdrawal of short-term fixed deposits of RMB341.3 million (1H 2022: Nil).

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 1H 2023 and 1H 2022, total CAPEX incurred were RMB616.1 million and RMB1,061.9 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash outflow from financing activities of approximately RMB1,363.3 million for 1H 2023. Major outflows from repayment of bank loans of RMB2,077.9 million (1H 2022: RMB2,042.9 million), shares repurchased of RMB315.4 million (1H 2022: RMB62.5 million), payment for repurchase of unsecured notes of RMB251.9 million (1H 2022: Nil) and dividends paid of RMB130.3 million (1H 2022: Nil), and major inflows was due to bank loans raised of RMB1,616.5 million (1H 2022: RMB1,362.4 million).

Cash and Cash Equivalents and Short Term Fixed Deposits

As at 30 June 2023, the unencumbered cash and cash equivalents and short term fixed deposits of the Group amounted to RMB7,126.3 million (31 December 2022: RMB7,155.0 million), of which 59.5% (31 December 2022: 55.7%) was denominated in US dollar, 36.4% (31 December 2022: 39.8%) in RMB, 1.4% (31 December 2022: 0.2%) in Singapore dollar, 0.6% (31 December 2022: 0.5%) in Euros, 0.6% (31 December 2022: 2.5%) in Hong Kong dollar, 0.6% (31 December 2022: 0.5%) in Vietnamese Dong, 0.4% (31 December 2022: 0.2%) in Malaysian Ringgit and 0.5% (31 December 2022: 0.6%) in other currencies.

Gearing Ratio and Indebtedness

As at 30 June 2023, the Group's gearing ratio, defined as total loans and unsecured notes divided by total assets, was 23.0% (31 December 2022: 23.9%). Netting off cash and cash equivalents and short term fixed deposits, net gearing ratio was 4.9% (31 December 2022: 6.2%).

As at 30 June 2023, the unsecured notes of the Group were RMB5,983.5 million (31 December 2022: RMB6,087.8 million), the short-term bank loans and long-term bank loans of the Group amounted to RMB1,258.9 million (31 December 2022: RMB1,832.6 million) and RMB1,829.9 million (31 December 2022: RMB1,727.2 million) respectively.

Charges on Group Assets

Apart from bank deposits amounting to RMB0.2 million that were pledged to secure credit facilities as at 30 June 2023 (31 December 2022: RMB0.2 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2023, the Group had not entered into any material off-balance sheet transactions.

EVENTS AFTER THE REPORTING PERIOD

For details of the events after the reporting period, please refer to Note 23 to the Condensed Consolidated Financial Statements.

KEY RISK FACTORS

Key Risk Factors

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In our pursuit of technology innovation, the Company is committed to building sustainable risk management and operational information systems. We 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 from the smartphone sector of the consumer electronics market. There are uncertainties due to the potential slow-down in global economy and the ensuing dampened consumer sentiment and weaker demand. A decline in global economic conditions, in particular in China and other geographic regions, 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 81.7% of the Group's total revenue for 1H 2023, 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 11 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

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.

The COVID-19 pandemic broke out globally in 2020, which has adversely impacted the global economy. As the world gradually returns to normal after the pandemic, the disruption of the pandemic to the Company's operation is expected to gradually diminish.

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 to ensure design specifications and quality requirements are met and possesses multiple overlapping core design and production competencies. 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 striving for innovation and maintaining 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 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, including the issuance of long term five-year and ten-year unsecured notes.

The Group's financial assets include cash and cash equivalents, short term fixed deposit, 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 has implemented the trade control compliance management system and has set up a trade compliance committee for overall management of the Group's trade compliance activities initiatives. A Trade Compliance Department has also been established to coordinate with and support other departments on trade compliance matters. 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 announcement; 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	**1.1.2023 to 30.6.2023 (Unaudited)** ***RMB'000***	1.1.2022 to 30.6.2022 (Unaudited) *RMB'000*
Revenue	*3*	**9,218,944**	9,411,777
Cost of goods sold		**(7,921,906)**	(7,628,952)
Gross profit		**1,297,038**	1,782,825
Other income	*4*	**319,193**	284,817
Other gains and losses	*5*	**85,480**	(4,064)
Share of result of an associate		**(178)**	(594)
Distribution and selling expenses		**(216,500)**	(209,423)
Administrative expenses		**(434,611)**	(450,818)
Research and development costs		**(675,179)**	(727,372)
Exchange gain (loss)		**3,553**	(47,008)
Finance costs		**(203,964)**	(203,846)
Profit before taxation	*6*	**174,832**	424,517
Taxation	*7*	**(127,354)**	(142,468)
Profit for the period		**47,478**	282,049
Loss for the period attributable to non-controlling interests		**(102,826)**	(68,041)
Profit for the period attributable to owners of the Company		**150,304**	350,090
Earnings per share			
- Basic	*9*	**RMB0.13**	RMB0.29
- Diluted	*9*	**RMB0.11**	RMB0.29

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	1.1.2023 to 30.6.2023 (Unaudited) ***RMB'000***	1.1.2022 to 30.6.2022 (Unaudited) *RMB'000*
Profit for the period	**47,478**	282,049
Other comprehensive (expense) income:		
Item that will not be subsequently reclassified to profit or loss:		
Fair value changes on equity instruments at fair value through other comprehensive income ("FVTOCI")	**(130)**	(113,127)
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising from translation of foreign operations	**71,485**	(93,954)
Fair value changes on derivative financial instruments	**14,173**	1,738
Gain reclassified to profit or loss on hedged items	**(9,087)**	(12,526)
Total comprehensive income for the period	**123,919**	64,180
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**223,090**	137,837
Non-controlling interests	**(99,171)**	(73,657)
	123,919	64,180

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

	NOTES	**30.6.2023 (Unaudited) *RMB'000***	31.12.2022 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**18,557,230**	19,301,682
Right-of-use assets	*10*	**1,909,768**	1,959,117
Goodwill		**275,365**	275,365
Deposits made for acquisition of property, plant and equipment		**213,910**	231,906
Investment properties	*10*	**131,043**	10,078
Interest in an associates		**3,120**	3,299
Equity instruments at FVTOCI	*11*	**451,772**	467,057
Financial assets at fair value through profit or loss ("FVTPL")	*12*	**308,700**	186,303
Derivative financial instruments	*13*	**1,489**	-
Intangible assets		**678,430**	563,954
Deferred tax assets		**210,300**	228,401
		22,741,127	23,227,162
Current assets			
Inventories		**3,495,491**	4,401,418
Trade and other receivables	*14*	**6,040,025**	5,531,160
Amounts due from related companies		**9,003**	8,259
Taxation recoverable		**7,368**	20,069
Pledged bank deposits		**200**	200
Short term fixed deposits		**-**	341,265
Cash and cash equivalents		**7,126,292**	6,813,725
		16,678,379	17,116,096
Current liabilities			
Trade and other payables	*15*	**4,915,472**	4,958,743
Contract liabilities		**20,105**	30,435
Amounts due to related companies		**23,279**	23,182
Taxation payable		**134,611**	117,762
Bank loans	*16*	**1,258,942**	1,832,603
Government grants		**131,064**	138,007
Lease liabilities		**355,439**	292,087
Derivative financial instruments	*13*	**-**	8,326
Contingent settlement provision	*18*	**1,684,034**	1,653,461
		8,522,946	9,054,606
Net current assets		**8,155,433**	8,061,490
Total assets less current liabilities		**30,896,560**	31,288,652

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

	NOTES	**30.6.2023** **(Unaudited)** ***RMB'000***	31.12.2022 (Audited) *RMB'000*
Non-current liabilities			
Bank loans	*16*	**1,829,900**	1,727,200
Unsecured notes	*17*	**5,983,548**	6,087,845
Government grants		**571,539**	640,368
Lease liabilities		**446,107**	485,095
Deferred tax liabilities		**41,278**	42,847
Derivative financial instruments	*13*	**-**	7,706
Other payables	*15*	**96,351**	101,976
		8,968,723	9,093,037
Net assets		**21,927,837**	22,195,615
Capital and reserves			
Share capital	*19*	**97,321**	97,708
Reserves		**21,393,382**	21,558,537
Equity attributable to owners of the Company		**21,490,703**	21,656,245
Non-controlling interests		**437,134**	539,370
Total equity		**21,927,837**	22,195,615

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

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

The condensed consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards ("**IFRSs**") and the application of certain accounting policies became relevant to the Group**,** the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred as the "**Group**") for the year ended 31 December 2022. Prior year disclosure has been represented to conform with the current year presentation for certain line items.

Transfer from owner-occupied property to investment property carried at cost model

If a property becomes an investment property measured using the cost model because its use has changed as evidenced by end of owner-occupation, the carrying amount of the property is transferred to the investment property and continued to be measured at cost less subsequent accumulated depreciation and any accumulated impairment losses.

<u>Application of amendments to IFRSs</u>

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**"), for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of amendments to IFRSs - continued

Except as described below, the application of the other new and amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts on application of 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. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

Impacts and changes in accounting policies on application of Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

Accounting Policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, for provisions for decommissioning and restoration in which the tax deductions are attributable to ultimate costs incurred the Group applies IAS 12 requirements to the lease liabilities, the provisions for decommissioning and restoration and the related assets separately. The Group recognised a deferred tax asset related to lease liabilities 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 taxable temporary differences.

Transition and summary of effects

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of amendments to IFRSs - continued

Impacts on application of Amendments to IAS 12 "Income Taxes International Tax Reform Pillar Two model Rules"

IAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The amendments require that entities shall apply the amendments immediately upon issuance.

The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

3. SEGMENT INFORMATION

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

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

The Group's operating and reportable segments under IFRS 8 "Operating Segments" are acoustics products, electromagnetic drives and precision mechanics, optics products, sensor and semiconductor products 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 been transferred.

No operating segments had 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 "Revenue from Contracts with Customers", the transaction price allocated to these unsatisfied contracts is not disclosed.

Information regarding these segments is presented below.

3. SEGMENT INFORMATION - continued

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

	1.1.2023 to 30.6.2023	1.1.2022 to 30.6.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
<u>Operating and reportable segments</u>		
Segment revenue - recognised at a point in time		
Acoustics products	**3,323,272**	4,147,709
Electromagnetic drives and precision mechanics	**3,619,700**	2,932,796
Optics products	**1,771,277**	1,852,432
Sensor and semiconductor products	**494,078**	478,840
Other products	**10,617**	-
	9,218,944	9,411,777
Segment results		
Acoustics products	**847,362**	1,129,706
Electromagnetic drives and precision mechanics	**697,361**	598,896
Optics products	**(300,919)**	(11,226)
Sensor and semiconductor products	**55,622**	65,449
Other products	**(2,388)**	-
Total profit for operating and reportable segments - gross profit	**1,297,038**	1,782,825
Unallocated amounts:		
Interest income	**106,836**	19,815
Other income (excluding interest income)	**212,357**	265,002
Other gains and losses	**85,480**	(4,064)
Share of results of an associate	**(178)**	(594)
Distribution and selling expenses	**(216,500)**	(209,423)
Administrative expenses	**(434,611)**	(450,818)
Research and development costs	**(675,179)**	(727,372)
Exchange gain (loss)	**3,553**	(47,008)
Finance costs	**(203,964)**	(203,846)
Profit before taxation	**174,832**	424,517

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

3. SEGMENT INFORMATION - continued

The key operating decision makers make decisions according to operating results of each segments. The Group analysed its assets and liabilities and other financial information at group level. Therefore, only segment revenue and segments results are presented.

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

	1.1.2023 to 30.6.2023	1.1.2022 to 30.6.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Greater China* (country of domicile)	**4,509,060**	4,416,687
Other foreign countries:		
America	**4,139,844**	4,232,858
Other Asian countries	**553,975**	761,255
Europe	**16,065**	977
	9,218,944	9,411,777

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

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

During the period, 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 RMB7,015,868,000 (six months ended 30 June 2022: RMB5,848,620,000). The total amount of revenue by each customer and number of customers is not disclosed, as in the opinion of the management of the Company such disclosure is harmful to the Group's business.

4. OTHER INCOME

	1.1.2023 to 30.6.2023	1.1.2022 to 30.6.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The Group's other income mainly comprises:		
Government grants (note)	**180,003**	237,345
Interest income	**106,836**	19,815
Rental income	**5,168**	5,602

Note: Included in the amount is RMB103,434,000 (six months ended 30 June 2022: RMB144,236,000) representing amortisation of government grants. In addition, during the current interim period, the Group recognised government grants of RMB389,000 in respect of COVID-19-related subsidies (six months ended 30 June 2022: RMB1,111,000). The remaining amount mainly represents the incentives granted by the People's Republic of China (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 during the period of recognition.

5. OTHER GAINS AND LOSSES

	1.1.2023 to 30.6.2023	1.1.2022 to 30.6.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The Group's other gains and losses mainly comprises:		
Gain on repurchase of unsecured notes	**78,082**	-
Gain (loss) on disposal/write-off of property, plant and equipment	**7,258**	(10,935)
Gain from changes in fair value of derivative financial instruments	**-**	4,812
Gain on termination of leases	**140**	86
Gain on derecognition of right-of-use assets	**-**	1,973

6. PROFIT BEFORE TAXATION

	1.1.2023 to 30.6.2023 *RMB'000* **(Unaudited)**	1.1.2022 to 30.6.2022 *RMB'000* (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**1,327,985**	1,326,600
Depreciation of investment properties	**643**	597
Depreciation of right-of-use assets	**108,080**	109,179
Total depreciation*	**1,436,708**	1,436,376
Less: Depreciation of right-of-use assets capitalised in qualifying assets	**(12,564)**	(15,052)
	1,424,144	1,421,324
Amortisation of intangible assets	**55,831**	29,184
(Reversal of) write-down of inventories included in cost of goods sold	**(116,177)**	66,280
Cost of raw materials included in research and development costs	**80,753**	71,039

* Depreciation of RMB126,174,000 (six months ended 30 June 2022: RMB136,959,000) had been included in research and development costs.

7. TAXATION

	1.1.2023 to 30.6.2023 *RMB'000* **(Unaudited)**	1.1.2022 to 30.6.2022 *RMB'000* (Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax	**99,393**	108,258
Other jurisdictions	**15,618**	6,582
Over provision of taxation in prior years	**(3,506)**	(12,282)
	111,505	102,558
PRC and overseas withholding tax	**108**	51
Deferred tax	**15,741**	39,859
	127,354	142,468

7. TAXATION - continued

Under the law of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%, for both periods, unless the group entities entitle to other preferential tax treatment granted by the relevant PRC tax authority.

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-New Technology Enterprises ("**HNTE**") till the dates ranging from 2023 to 2024 (six months ended 30 June 2022: 2022 to 2023). Pursuant to the EIT Law, those PRC subsidiaries entitled as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

In March 2021, the Ministry of Finance and the State Administration of Taxation released No. 13 announcement of 2021 named "Announcement on Further Improving the Policy on Pre-tax Deduction of Research and Development Expenses", according to which certain PRC subsidiaries engaged in manufacturing industry are entitled to an additional 100% tax deduction on eligible research and development expenses incurred by them for both periods.

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

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

8. DIVIDENDS

During the current interim period, a final dividend of HK$0.12 per share in respect of the year ended 31 December 2022 (six months ended 30 June 2022: No final dividend in respect of the year ended 31 December 2021) was paid to shareholders of the Company. The aggregate amount of the final dividend was paid in the interim period amounted to HK$143,820,000 (equivalent to RMB130,330,000) (six months ended 30 June 2022: No final dividend).

Subsequent to the end of the interim period, the Directors have resolved not to declare an interim dividend.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per attributable to owners of the Company is based on the following data:

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	**150,304**	350,090
Effect of share of loss of subsidiaries*	**(19,883)**	-
Earnings for the purpose of diluted earnings per share	**130,421**	-

	Six months ended	
	30.6.2023	30.6.2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue during the period for the purpose of calculating basic earnings per share	**1,182,185**	1,200,190
Effect of dilutive potential ordinary shares:		
Adjustment in relation to share awards granted by the Company	**4,570**	-
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,186,755**	1,200,190

* Adjustment to the share of loss of subsidiaries based on dilution of the loss per share arising from the effect of contingent settlement provision (six months ended 30 June 2022: the Directors consider the effect of contingent settlement provision was insignificant or antidilution).

The computation of diluted earnings per share for the six months ended 30 June 2023 and 2022 did not consider the effect arising from the unvested restricted shares granted by a subsidiary as set out in note 20 as the exercise would result in an increase in earnings per share.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

(i) Property, plant and equipment

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of RMB634,095,000 (six months ended 30 June 2022: RMB1,103,353,000). Part of the consideration of RMB231,906,000 (six months ended 30 June 2022: RMB317,127,000) was paid up in advance in prior year.

Also, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB177,000 (six months ended 30 June 2022: RMB24,364,000) for proceeds of RMB7,435,000 (six months ended 30 June 2022: RMB13,429,000) and resulting in a gain on disposal of RMB7,258,000 (six months ended 30 June 2022: loss on disposal of RMB10,935,000).

During the six months ended 30 June 2023, property, plant and equipment with an aggregate carrying amount of RMB113,590,000 is transferred to investment properties (six months ended 30 June 2022: Nil).

(ii) Right-of-use assets

During the six months ended 30 June 2023, the Group renewed several lease agreements and entered into several new lease agreements for the use of land and buildings ranging from 3 to 6 years (six months ended 30 June 2022: 1 to 4.58 years). The Group is required to make fixed future payment and, in certain cases, is required to make prepayments. On lease commencement, the Group recognised right of use assets of RMB54,421,000 and lease liabilities of RMB54,046,000 (six months ended 30 June 2022: right-of-use assets of RMB32,950,000 and lease liabilities of RMB32,950,000). The recognition of newly added right-of-use assets constitutes non-cash transactions.

During the six months ended 30 June 2023, leasehold land of RMB8,018,000 is transferred to investment properties (six months ended 30 June 2022: Nil).

During the six months ended 30 June 2022, the Group returned the leasehold land with carrying amount of RMB5,290,000 to government at consideration of RMB7,263,000 and a gain of derecognition of right-of-use assets of RMB1,973,000 was recognised in profit or loss (six months ended 30 June 2023: Nil).

In addition, during the six months ended 30 June 2023, the Group early terminated certain leases which constitutes lease modification. As a result, the Group has derecognised right-of-use assets of RMB889,000 (six months ended 30 June 2022: RMB2,718,000) and lease liabilities of RMB1,029,000 (six months ended 30 June 2022: RMB2,804,000), and a gain of lease termination of RMB140,000 (six months ended 30 June 2022: RMB86,000) is recognised in profit or loss.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES - continued

(iii) Investment properties

During the six months ended 30 June 2023, property, plant and equipment of RMB113,590,000 and leasehold land of RMB8,018,000 are transferred to investment properties upon leasing to an independent third party for rental income.

During the six months ended 30 June 2023, depreciation on the investment properties amounted to RMB643,000 (six months ended 30 June 2022: RMB597,000) was charged to the profit or loss.

Impairment assessment

Due to the loss from the optics products segment in the current interim period, the management of the Group conducted impairment assessment on certain property plant and equipment and right-of-use assets and intangible assets with finite useful lives with carrying amounts of RMB5,482,377,000 (31 December 2022: RMB5,824,319,000), RMB364,456,000 (31 December 2022: RMB383,727,000) and RMB96,461,000 (31 December 2022: RMB103,487,000) respectively related to the optics products segment. The Group estimates the recoverable amounts of the cash-generating units of optics product segment to which the assets belongs when it is not possible to estimate the recoverable amount individually, including allocation of corporate assets when reasonable and consistent basis can be established.

The recoverable amount of cash-generated unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the respective subsidiary covering the following 5 years with a pre-tax discount rate is 11.7% as at 30 June 2023 (31 December 2022: 11.7%). The cash flows beyond 5-year period are extrapolated using 3% growth rate for the relevant industry (31 December 2022: 3%). Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the cash-generating units' past performance and management expectations for the market development.

Based on the result of the assessment, management of the Group determined that the carrying amount of the relevant assets does not exceed the recoverable amount based on the value in use and no impairment loss has been recognised for the six months ended 30 June 2023 (31 December 2022: Nil).

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unlisted shares	**408,076**	424,798
Listed shares	**43,696**	42,259
	451,772	467,057

Unlisted shares

The unlisted equity investments represent the Group's equity interest in private entities. The equity instruments mainly 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 sensor and semiconductor business, (iii) producing high technology products, (iv) solid state Light Detection And Ranging ("**LiDAR**") senor for automotive series use, and (v) research, development, manufacturing and marketing of electronic equipment in the field of high-end audio.

During the six months ended 30 June 2023, the Group received return on capital from a private entity engaged in manufacturing of electromagnetic drives and precision mechanics at a compensation of US$ 2,761,000 (equivalent to approximately RMB18,666,000).

During the six months ended 30 June 2022, the Group acquired certain equity interests in a private entity engaged in manufacturing of semiconductor components at a consideration of RMB2,500,000.

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 30 June 2023, the fair value of the investment determined by reference to the quoted market bid prices available was RMB43,696,000 (31 December 2022: RMB42,259,000).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Convertible loans	**40,475**	39,012
Unlisted shares	**268,225**	147,291
	308,700	186,303

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - continued

The financial assets at FVTPL represent the Group's investment in (i) a private equity fund primarily investing 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 ("**Fund A**"), (ii) a private equity fund primarily investing in private entities in sensor and semiconductor business ("**Fund B**"), (iii) a preferred shares investment in a private entity in sensor and semiconductor business, and (iv) a private entity in augmented reality displays manufacturing business.

During the six months ended 30 June 2023, the Group acquired certain equity interests in a private entity engaged in automotive business at a consideration of RMB50,000,000. In addition, the Group (i) made addition contribution of US$6,980,000 (equivalent to approximately RMB50,114,000) and GBP359,000 (equivalent to approximately RMB3,232,000) to the private equity funds mentioned above and (ii) acquired additional interest in a private entity which engaged in sensor and semiconductor business at a consideration of US$1,500,000 (equivalent to approximately RMB10,839,000).

During the six months ended 30 June 2022, the Group (i) made contribution of US$4,592,000 (equivalent to approximately RMB30,059,000) to the private equity fund mentioned above and (ii) granted a convertible loan amounted to Euro5,000,000 (equivalent to approximately RMB37,594,000) in a private entity in Finland. As the convertible loan contains derivative feature for the holder to convert the outstanding amount into equity interest of the issuer, it was accounted for as financial assets at FVTPL.

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.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		**Non-current**	
	30.6.2023 ***RMB'000*** **(Unaudited)**	31.12.2022 *RMB'000* (Audited)	**30.6.2023** ***RMB'000*** **(Unaudited)**	31.12.2022 *RMB'000* (Audited)
Derivatives financial assets				
Cross currency swap contract	**-**	-	**1,489**	-
Derivatives financial liabilities				
Cross currency swap contract	**-**	8,326	**-**	7,706

The Group entered into a cross currency swap contract with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of US$ denominated unsecured notes. The critical terms of the cross currency swap contract and the corresponding US$ denominated unsecured notes were closely aligned and the management considers that the cross currency swap contract is highly effective hedging instrument and qualified as cash flow hedge. Fair value change on this hedging instrument in cash flow hedge of gain of RMB5,086,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: loss of RMB10,788,000) has been recognised in other comprehensive income and accumulated in the hedging reserve. Gain of RMB9,087,000 (six months ended 30 June 2022: gain of RMB12,526,000) on cash flow hedge was reclassified to profit or loss.

14. TRADE AND OTHER RECEIVABLES

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**4,591,502**	4,089,490
Bank acceptance and commercial bills	**178,598**	189,168
	4,770,100	4,278,658
Prepayments	**299,727**	314,409
Value-added tax recoverable	**647,093**	666,099
Other receivables	**318,752**	263,471
Loan and interest receivables*	**4,353**	8,523
	6,040,025	5,531,160

* Loans of RMB4,347,000 (2022: RMB8,359,000) made to certain suppliers of the Group, which are unsecured, carry interest rates at 1% (2022: 1% to 4.35%) per annum. The amounts are repayable in 1 year.

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

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Age		
0 - 90 days	**4,346,564**	4,098,361
91 - 180 days	**413,640**	169,795
Over 180 days	**9,896**	10,502
	4,770,100	4,278,658

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment.

The management of the Group assessed the expected credit loss on trade receivables with significant balances individually. Based on historical experience of the management, these trade receivables are generally recoverable due to the long term/on-going relationship and good repayment record. For the remaining trade receivables, the loss allowance is assessed to be insignificant.

In addition, the management of the Group is of the opinion that those trade receivables aged over 180 days are still fully recoverable due to long-term/on-going relationship and good repayment record from these customers.

15. TRADE AND OTHER PAYABLES

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**2,603,470**	2,131,255
Notes payables - guaranteed	**871,641**	1,111,657
	3,475,111	3,242,912
Payroll and welfare payables	**348,446**	444,049
Payables for acquisition of property, plant and equipment	**561,766**	673,133
Other payables and accruals (note i)	**542,701**	613,509
Payables related to restricted shares granted to employee (Note 20)	**83,799**	87,116
	5,011,823	5,060,719
Less: Other payables for settlement after 12 months shown under non-current liabilities (note ii)	**(96,351)**	(101,976)
	4,915,472	4,958,743

Notes:

(i) The consideration for share repurchased in December 2022 amounting to RMB34,604,000 was included in other payables as at 31 December 2022 (30 June 2023: Nil).

(ii) Included in other payables including certain payment of the patent acquired in 2022 which is deferred to be payable after 1 year and presented as non-current liabilities.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Age		
0 - 90 days	**2,798,612**	2,576,830
91 - 180 days	**656,604**	654,872
Over 180 days	**19,895**	11,210
	3,475,111	3,242,912

16. BANK LOANS

The variable rate bank loans carry interest ranging from 2.67% to 3.17% (31 December 2022: 2.55% to 4.90%) per annum. The fixed rate bank loans carry interest ranging from 1.75% to 3.00% (31 December 2022: 1.75% to 3.80%) per annum. The Company has issued guarantees to respective banks to secure the borrowings.

17. UNSECURED NOTES

Unsecured notes issued in 2019

In 2019, the Group issued unsecured notes of US$388,000,000 due on 27 November 2024 at a fixed interest rate of 3.0% per annum ("**2024 Notes**"), payable semi-annually in arrears. The unsecured note is listed on the Hong Kong Stock Exchange. The effective interest rate of the 2024 Notes is 3.1506% per annum.

As at period ended 30 June 2023, the principal amounts of the outstanding unsecured notes include 2024 Notes of US$276,818,000 (31 December 2022: US$276,818,000) with the carrying amount of RMB1,995,487,000 (31 December 2022: RMB1,921,798,000).

Unsecured notes issued in 2021

In 2021, the Group issued unsecured notes of US$300,000,000 due on 2 June 2026 at a fixed coupon rate of 2.625% per annum ("**2026 Notes**") and US$350,000,000 due on 2 June 2031 at fixed coupon rate of 3.750% per annum ("**2031 Notes**"). 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.

As at period ended 30 June 2023, the principal amounts of the outstanding unsecured notes include 2026 Notes of US$240,604,000 (31 December 2022: US$252,604,000) with the carrying amount of RMB1,734,054,000 (31 December 2022: RMB1,753,985,000) and 2031 Notes of US$315,073,000 (31 December 2022: US$350,000,000) with the carrying amount of RMB2,254,007,000 (31 December 2022: RMB2,412,062,000).

During the six months ended 30 June 2023, the Group repurchased the 2026 Notes with the principal amount of US$12,000,000 at a consideration of US$10,485,000 and carrying amount is RMB84,786,000 and 2031 Notes with the principal amount of US$34,927,000 at a consideration of US$24,982,000 and carrying amount is RMB245,243,000 from open market and the notes are cancelled accordingly upon the repurchase. As a result of the derecognition of the unsecured notes repurchased, a gain on derecognition of the financial liabilities of RMB78,082,000 was recognised in the profit or loss. The repurchase of its outstanding 2026 Notes and 2031 Notes is for the purpose of optimising its debt structure and proactive management of its liabilities.

18. CAPITAL CONTRIBUTION FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY AND CONTINGENT SETTLEMENT PROVISION

In accordance with the agreement between the Group and the non-controlling interests of a subsidiary, on occurrence or non-occurrence of future events including the separate listing condition, certain non-controlling interests of a subsidiary are entitled to require the Group for capital repayment plus a premium. A contingent settlement provision has been recognised against the equity as the Group has a contractual obligation to deliver cash in 2023.

According to the share transfer agreement dated 10 May 2022, AAC Technologies Limited ("**AAC HK**") agreed to purchase 48,289,693 shares of AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**"), which represents approximately 0.7133% of the total number of shares issued by AAC Optics, from an independent strategic investor (the "**Seller**") at a consideration of RMB130,000,000 which was equal to the principal amount of the capital from the Seller in 2020. The gross obligation of RMB130,000,000 was derecognised against the equity upon the return of the capital contribution from that strategic investor. This transaction resulted in changes in the Group's interest in AAC Optics from 80.38% to 81.10%. In addition, the Seller also entered into share transfer agreements with other strategic investors to transfer in aggregate 0.8232% interest in AAC Optics. As a result of these transactions, the contingent settlement provision amounted to RMB147,789,000, which represented the consideration paid by AAC HK and the forfeiture of interests that the Seller was originally entitled to, were derecognised. The difference between the amounts of the contingent settlement provision derecognised and the consideration paid amounting to RMB17,789,000 was credited directly in equity and attributed to owners of the Company.

According to the Company's announcement dated 16 December 2022, the Company decided to delay the timetable for the proposed spin-off and separate listing, and, the Shanghai Stock Exchange accepted the application initiated by AAC Optics to withdraw the application documents in relation to the purposed spin-off and separate listing. The Company considers that the proposed spin-off and separate listing, if it proceeds, will be commercially beneficial to the Company and AAC Optics, and the Company intended to continue to pursue the proposed spin-off and separate listing when, amongst others, market conditions improve.

19. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2022, 30 June 2022	1,208,500,000	12,085
Ordinary shares at 1 January 2023	1,203,250,000	12,033
Shares repurchased and cancelled	(4,750,000)	(48)
Ordinary shares at 30 June 2023	1,198,500,000	11,985

	RMB'000
Presented in the condensed consolidated statement of financial position	
At 1 January 2022 and 30 June 2022	98,135
At 1 January 2023	97,708
Shares repurchased and cancelled	(387)
At 30 June 2023	97,321

During the six months ended 30 June 2023, the Company repurchased its own ordinary shares through The Hong Kong Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of US$0.01 each	Price per share Highest	Price per share Lowest	Aggregate consideration
		HK$	*HK$*	*HK$'000*
January	2,544,500	18.02	16.40	42,766

During the six months ended 30 June 2023, the Company repurchased a total of 2,544,500 issued ordinary shares of the Company in the market for a consideration of HK$42,766,000 (equivalent to approximately RMB38,057,000) (six months ended 30 June 2022: Nil). During the six months ended 30 June 2023, 2,544,500 ordinary shares repurchased in current period and 2,205,000 ordinary shares repurchased in December 2022 were cancelled (six months ended 30 June 2022: Nil).

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current interim period.

20. SHARE AWARD SCHEME

Share award scheme of the Company

2016 share award scheme of the Company

The Company on 23 March 2016 had adopted the AAC Share Award Scheme (the "**2016 Scheme**") constituted by a 2016 trust deed between the Company and Bank of Communications Trustee Limited (the "**2016 Trustee**"), in which employees may be selected by the Board of Directors to participate. Pursuant to the 2016 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 2016 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 2016 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 24 March 2022, the Company granted a total of 10,230,593 shares to 340 selected employees pursuant to the 2016 Scheme at nil consideration. The fair value of the shares granted pursuant to the 2016 Scheme were determined with reference to market value of the shares at the award date taking into account the exclusion of the expected dividends as the employees were not entitled to receive dividends paid during the vesting periods of the shares. The shares granted would be vested over a requisite service period up to three years from the date of grant subject to the relevant key performance targets.

During the six months ended 30 June 2023, the 2016 Trustee purchased an aggregate of 9,544,000 shares at prices ranging from HK$15.3 to HK$21.5 per share at a total consideration of HK$174,746,000 (equivalent to RMB154,042,000) on Hong Kong Stock Exchange for the purpose of the 2016 Scheme (six months ended 30 June 2022: the 2016 Trustee purchased an aggregate of 4,188,500 shares at prices ranging from HK$17.9 to HK$19.2 per share at a total consideration of HK$77,283,000 (equivalent to RMB62,477,000)).

As at 30 June 2023, an aggregate of 17,210,645 shares (31 December 2022: 10,231,000 shares) of the Company had been purchased and held by the 2016 Trustee. Since the date of adoption of the 2016 Scheme up to 30 June 2023, no new shares had been issued to the 2016 Trustee.

20. SHARE AWARD SCHEME - continued

Share award scheme of the Company - continued

2016 share award scheme of the Company - continued

Movement of the shares granted to selected employee(s) under the 2016 Scheme during the period ended 30 June 2023 and 30 June 2022 are as follows:

For the period ended 30 June 2023

		Number of shares			
Date of grant	**Vesting period**	**At 1 January 2023**	**Vested on 24 March 2023**	**Shares entitlement forfeited**	**At 30 June 2023**
24 March 2022	24 March 2022 to 24 March 2023	**3,193,933**	**(2,722,799)**	**(471,134)**	**-**
24 March 2022	24 March 2022 to 24 March 2024	**3,193,933**	**-**	**(198,697)**	**2,995,236**
24 March 2022	24 March 2022 to 24 March 2025	**3,203,524**	**-**	**(199,294)**	**3,004,230**
		9,591,390	**(2,722,799)**	**(869,125)**	**5,999,466**

For the period ended 30 June 2022

		Number of shares			
Date of grant	Vesting period	At 1 January 2022	Granted on 24 March 2022	Shares entitlement forfeited	At 30 June 2022
24 March 2022	24 March 2022 to 24 March 2023	-	3,406,787	(48,797)	3,357,990
24 March 2022	24 March 2022 to 24 March 2024	-	3,406,787	(48,797)	3,357,990
24 March 2022	24 March 2022 to 24 March 2025	-	3,417,019	(48,943)	3,368,076
		-	10,230,593	(146,537)	10,084,056

The terms and conditions of the grants are as follows for both periods:

	Number of shares	Vest condition	Date of grant	Vesting period	Market value per share *HK$*	Fair value of shares *HK$*
Shares awarded to selected employees	3,406,787	1 year from the date of grant	24 March 2022	24 March 2022 to 24 March 2023	17.64	60,095,731
	3,406,787	2 years from the date of grant	24 March 2022	24 March 2022 to 24 March 2024	17.64	60,095,731
	3,417,019	3 years from the date of grant	24 March 2022	24 March 2022 to 24 March 2025	17.64	60,276,199
	10,230,593					180,467,661

20. SHARE AWARD SCHEME - continued

Share award scheme of the Company - continued

2016 share award scheme of the Company - continued

During the six months ended 30 June 2023, the Group recognised total expenses of RMB22,464,000 (six months ended 30 June 2022: RMB24,860,000) in relation to the 2016 Scheme shares granted by the Company.

2023 share award scheme of the Company

The Company has adopted a new share award scheme the ("**2023 Scheme**") pursuant to a resolution passed on 17 April 2023 which constituted by a Trust Deed between the Company and BOCI Trustee (Hong Kong) Limited (the "**2023 Trustee**"), in which employees may be selected by the Board of Directors to participate. Pursuant to the 2023 Scheme, shares of the Company will be purchased on the Hong Kong Stock Exchange, by the 2023 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 2023 Trustee who holds the shares for the benefit of the selected employees. A grantee shall not have any interest or rights (including the right to receive dividends) in the shares prior to the vesting of the shares.

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

During the six months ended 30 June 2023, the 2023 Trustee purchased an aggregate of 5,952,500 shares at prices ranging from HK$16.2 to HK$17.5 per share at a total consideration of HK$100,818,000 (equivalent to RMB88,667,000) on the Hong Kong Stock Exchange for the purpose of the 2023 Scheme.

As at 30 June 2023, an aggregate of 5,952,500 shares of the Company had been purchased and held by the 2023 Trustee. Since the adoption of 2023 Scheme up to 30 June 2023, no new shares had been issued to the 2023 Trustee.

No share awards have been granted to any employees since adoption of the 2023 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 RMB1 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 six months ended 30 June 2023, the net cash payment to the Eligible Scheme Participants under the Subsidiary Scheme was RMB3,068,000 (six months ended 30 June 2022: the repayment of the loans from the Group to certain Eligible Scheme Participants was RMB3,422,000).

20. SHARE AWARD SCHEME - continued

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

Except for 11,163,857 shares which were granted and vested immediately in 2021, the remaining shares would be vested over a requisite service period of up to three-and-a-half years 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.

During the six months ended 30 June 2023, the Group repurchased of 4,260,520 Restricted Shares at the subscription price of RMB1 per share of AAC Optics from the Eligible Scheme Participants and no shares were granted during the six months ended 30 June 2023. The granted shares were vested over a requisite service period from the date of grant in 2022 to the end of 2024 subject to the relevant key performance targets of AAC Optics during the vesting period. During the six months ended 30 June 2022, no Restricted Shares were granted to or repurchase from the Eligible Scheme Participants.

As at 30 June 2023, the net cash proceed of unvested portion of Restricted Shares, amounting to RMB83,799,000, is recorded as other payables as the shares are contingently returnable (31 December 2022: RMB87,116,000).

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 2022 and 30 June 2022	124,214,061	208,957
Unvested as at 1 January 2023	115,166,715	193,891
Repurchased during the period	(4,260,520)	(7,133)
Unvested as at 30 June 2023	110,906,195	186,758

The fair value of Restricted Shares granted is measured on the basis of an observable market price.

As of 30 June 2023, there are 13,307,866 Restricted Shares (31 December 2022: 9,047,346 Restricted Shares) held under the Platforms which are available to be granted to the eligible employees under the Subsidiary Scheme.

During the six months ended 30 June 2023, the shared-based payment credited to profit or loss of AAC Optics was RMB3,065,000 (six months ended 30 June 2022: shared-based payment charged to profit or loss of AAC Optics was RMB27,149,000) in relation to the Subsidiary Scheme shares granted by the subsidiary and the amount was debited (six months ended 30 June 2022: credited) to the non-controlling interests in the Group.

In the opinion of the Directors of the Company, the estimated compensation cost of Restricted Shares granted during the six months ended 30 June 2023 and 30 June 2022 was based on the consideration of the latest transaction price of AAC Optics in 2022.

20. SHARE AWARD SCHEME - continued

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

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.

During the six months ended 30 June 2023 and 2022, no revision of the estimates was noted.

21. CAPITAL COMMITMENTS

	30.6.2023 ***RMB'000*** **(Unaudited)**	31.12.2022 *RMB'000* (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
- acquisition of property, plant and equipment	**793,686**	623,271
- capital contribution to financial assets at FVTPL	**309,257**	335,810
	1,102,943	959,081

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

In estimating the fair value, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under Level 3, the Group engages third party qualified valuers to perform the valuation. The investment committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Innovation Officer reports the investment committee's findings to the directors of the Company every quarter to explain the cause of fluctuations in the fair value.

The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) 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 is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. 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

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	30.6.2023 ***RMB'000*** **(Unaudited)**	31.12.2022 *RMB'000* (Audited)		
Equity instruments at FVTOCI - Listed shares	**43,696**	42,259	Level 1	Quoted bid prices in an active market
Equity instruments at FVTOCI - Unlisted equity investments	**62,769**	46,342	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.
Equity instruments at FVTOCI - Unlisted equity investments	**345,307**	233,115	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month Price-to-Sales multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.
Equity instruments at FVTOCI - Unlisted equity investments	-	145,341	Level 3	Recent transaction prices of underlying investments
Total equity instruments at FVTOCI	**451,772**	467,057		
Financial assets at FVTPL	**50,906**	-	Level 3	Recent transaction prices of underlying investments
Financial assets at FVTPL	**170,351**	112,468	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month Price-to-Sales multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.
Financial assets at FVTPL	**46,968**	34,823	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits or the present value of the future expected cash flows to be derived from the ownership of these investments.
Financial assets at FVTPL	**40,475**	39,012	Level 3	Binomial Option Pricing Model
Total financial assets at FVTPL	**308,700**	186,303		

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

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

Financial assets/liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	30.6.2023 *RMB'000* **(Unaudited)**	31.12.2022 *RMB'000* (Audited)		
Cross currency swap contract	**1,489 Assets (under hedge accounting)**	- Assets (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.
Cross currency swap contract	**- Liabilities (under hedge accounting)**	16,032 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.

Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI *RMB'000*	Financial assets at FVTPL *RMB'000*
At 1 January 2022 (audited)	787,079	-
Transfer from level 2 to level 3	13,475	50,349
Purchase made	-	30,059
Fair value loss in other comprehensive income	(101,987)	-
Currency realignment	30,254	3,410
At 30 June 2022 (unaudited)	728,821	83,818
At 1 January 2023 (audited)	424,798	186,303
(Capital return) purchase made	(18,666)	114,185
Fair value loss in other comprehensive income	(3,369)	-
Currency realignment	5,313	8,212
At 30 June 2023 (unaudited)	408,076	308,700

Included in other comprehensive income is an amount of RMB3,369,000 loss (six months ended 30 June 2022: RMB101,987,000 loss) 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.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value of the Group's financial instruments that are not measured at fair value on a recurring basis

Except for those listed unsecured notes in which there is fair value based on the quoted bid price in an active market, amounting to RMB5,055,853,000 (31 December 2022: RMB4,971,698,000), the management considers that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

23. EVENTS AFTER THE REPORTING PERIOD

On 10 August 2023, the Group entered into the sale and purchase agreement pursuant to which the Group agreed to purchase all of the issued shares in Acoustics Solutions International B.V. (the "**Target**") from Acoustics Solutions Holding B.V. and Stichting Administratiekantoor Acoustics Solutions International (collectively, the "**Sellers**"). Pursuant to the sale and purchase agreement, the Group will purchase the sale shares from the Sellers in two tranches, with the first tranche shares and the second tranche shares comprising 80% and 20%, respectively, of the issued shares in the capital of the Target.

The first tranche purchase price will comprise the sum of US$320,000,000 (the "**Initial Purchase Price**") (representing an equity value of US$400,000,000 for 100% of the sale shares) together with interest thereon from 1 April 2023 to the date of first tranche completion less the price adjusting leakage (if any), the second tranche purchase price will comprise the sum of: (i) an agreed multiple of the Target EBITDA plus (ii) the Target adjusted net financial debt (cash) multiplied by 20% together with interest thereon from the second tranche effective date (being 1 April 2025) (or the postponed second tranche effective date, being 1 April 2026 or 1 April 2027) to the date of second tranche completion. The Sellers or the Group have the right to postpone the second tranche effective date from 1 April 2025 by up to two times by one year each time, that is, to 1 April 2026 or 1 April 2027. If the postponement right is exercised by one of the parties and the other party disagrees with the postponement, the Group will purchase the second tranche shares at a fixed purchase price (the maximum purchase price is US$204,613,000) together with interest thereon. For details of the transaction, please refer to the announcement of the Company dated 10 August 2023.

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 the 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"), the Board is satisfied that throughout 1H 2023, the Company has complied with all the Code Provision(s).

SHARE AWARD SCHEMES

2016 Share Award Scheme

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "**2016 Share Award Scheme**") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the 2016 Share Award 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 the shares of the Company (the "**Shares**") that may be awarded under the 2016 Share Award Scheme during its term is limited to 1.65% (i.e. 19,775,250 Shares as at 24 August 2023) 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. 5,992,500 Shares as at 24 August 2023) of the issued share capital of the Company from time to time. Pursuant to the 2016 Share Award Scheme, Shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Hong Kong Stock Exchange, by Bank of Communications Trustee Limited (the "**2016 Scheme Trustee**") at the cost of the Company and will be held by the 2016 Scheme Trustee on trust for Selected Employee(s) under the 2016 Share Award Scheme before vesting.

Since the date of adoption of the 2016 Share Award Scheme and up to 30 June 2023, no new Shares have been issued to the 2016 Scheme Trustee pursuant to the rules and trust deed of the 2016 Share Award Scheme. In January 2023, March 2023 and April 2023, the 2016 Scheme Trustee of the 2016 Share Award Scheme purchased 3,276,000, 1,385,000 and 4,883,000 Shares, respectively, on the Hong Kong Stock Exchange for the purpose of the 2016 Share Award Scheme, funded by the Company's internal resources.

Since the date of adoption of the 2016 Share Award Scheme and up to 30 June 2023, a total of 10,230,593 Awarded Shares were granted to 340 employees, in which 2,722,799 Awarded Shares have been vested to employees on 24 March 2023. The Awarded Shares shall be vested in the Grantees subject to the terms of the 2016 Share Award Scheme and the vesting conditions as set out in the respective Grant Notice to each Grantees (including a period of continued service within the Group after the grant of the Award and performance targets which must be attained).

As at 30 June 2023, the 2016 Scheme Trustee held a total of 17,210,645 unvested Shares under the 2016 Share Award Scheme, and the remaining Shares which could be further awarded under the 2016 Share Award Scheme were 11,052,985 Shares.

Unless otherwise defined, 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 2016 Share Award Scheme.

2023 Share Award Scheme

As announced by the Company on 17 April 2023, the Board resolved to adopt a share award scheme (the "**2023 Share Award Scheme**") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purposes of the 2023 Share Award Scheme are: (i) to achieve the long-term business objectives of the Group; (ii) to implement the Group's long-term business strategy; (iii) to enhance the value of the Group; (iv) to advance the growth and achieve sustainable development of the Group; and (v) to enable the Employees to share the success in the growth of the Group.

The maximum number of Shares that may be awarded under the 2023 Share Award Scheme during its term is limited to 45,000,000 Shares, representing approximately 3.75% of the issued share capital of the Company as at 24 August 2023. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 5,992,500 Shares as at 24 August 2023) of the issued share capital of the Company from time to time. Pursuant to the 2023 Share Award Scheme, Shares will be s purchased on the Hong Kong Stock Exchange, by BOCI Trustee (Hong Kong) Limited (the "**2023 Scheme Trustee**") at the cost of the Company and will be held by the 2023 Scheme Trustee on trust for Selected Employee(s) under the 2023 Share Award Scheme before vesting. Save from above, there is no material difference between the terms of the 2016 Share Award Scheme and the 2023 Share Award Scheme.

In April 2023 and May 2023, the 2023 Scheme Trustee purchased 600,000 and 5,352,500 Shares, respectively, on the Hong Kong Stock Exchange for the purpose of the 2023 Share Award Scheme, funded by the Company's internal resources. As at 30 June 2023, the 2023 Scheme Trustee held a total of 5,952,500 Shares under the 2023 Share Award Scheme.

Since the date of adoption of the 2023 Share Award Scheme and up to 30 June 2023, no Shares had been granted to Selected Employee(s) under the 2023 Share Award Scheme.

Unless otherwise defined, the capitalised terms referred in this section shall have the same meanings as those defined in the announcement made by the Company on 17 April 2023 relating to the adoption of the 2023 Share Award Scheme.

Subsidiary Share Incentive Scheme

In addition to the 2016 Share Award Scheme and the 2023 Share Award Scheme, AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**"), a subsidiary of the Company, operates a subsidiary share incentive (the "**Subsidiary Share Incentive Scheme**"). The purpose of the Subsidiary Share Incentive Scheme is to provide the selected employees of AAC Optics and relevant personnel a market oriented incentive scheme and attract top talents. AAC Optics intends to incentivise and reward them for their commitment and dedication to its business expansion. Please refer to Note 20 to the condensed consolidated financial statements for details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Share Repurchase

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.

During 1H 2023, the Company had repurchased, under the repurchase mandate granted by the Company's shareholders, a total of 2,544,500 Shares, representing approximately 0.2% of the issued 1,198,500,000 Shares as at 30 June 2023. The aggregate consideration of HK$42.77 million for the repurchase was paid out from the Company's retained profits.

All repurchased Shares have been cancelled as at the date of this announcement. The share repurchase reflects the Company's solid financial position and the Board's strong confidence in the Company's future business prospects. The Directors of the Company believe that the share repurchase was in the interest of Shareholders as a whole, enhancing the net asset value per share and earnings per share of the Company.

Details of the repurchases are as follows:

Month	Total number of the ordinary Shares	Highest price paid per Share *(HK$)*	Lowest price paid per Share *(HK$)*	Aggregate consideration(1) *(HK$'000)*
January 2023	2,544,500	18.02	16.40	42,766

Note*:*

(1) Including brokerage, transaction levy, stamp duty and transaction cost of HK$123,000.

Bond Purchase

As at 1 January 2023, the outstanding aggregate principal amounts of the 3.00 per cent. notes due 2024 (2024 Notes, stock code: 40075) issued in 2019, 2.625 per cent. notes due 2026 (2026 Notes, stock code: 40699) issued in 2021 and 3.750 per cent. notes due 2031 (2031 Notes, stock code: 40700) issued in 2021 to Professional Investors were US$276,818,000, US$252,604,000 and US$350,000,000, respectively.

In January 2023, the Company had purchased from open market US$1,000,000 of the 2026 Notes and US$1,000,000 of the 2031 Notes, with aggregate amount of US$1,620,000 paid by the Company, and in June 2023, the Company had purchased from open market US$11,000,000 of the 2026 Notes and US$33,927,000 of the 2031 Notes, with aggregate amount of US$33,847,000 paid by the Company, thereby reducing the outstanding aggregate principal amounts of the 2026 Notes and the 2031 Notes to US$240,604,000 and US$315,073,000, respectively.

Save as disclosed above, during the period ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

HUMAN RESOURCES

As at 30 June 2023, the Group employed 25,958 permanent employees, a 7% decrease from 27,798 employees as at 31 December 2022. The reduction in total work force was the result of the Group's advancement in automation and production methodologies, and the rather unfavorable overall market conditions.

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 based on benchmarking results, and fairly rewards its employees based on individual performance. 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 schemes.

As required by the relevant regulations, the Group has been participating in the social insurance schemes operated by the relevant local government authorities in the PRC, and in the mandatory pension fund as well as 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 and reposition its various R&D centers in Asia, Europe and North America, including a long-established collaboration with universities, and industrial leaders 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 period ended 30 June 2023.

DESPATCH OF INTERIM REPORT

The interim report of the Company will be published on the Company's website at www.aactechnologies.com and the website of the Hong Kong Stock Exchange in September 2023.

The interim report of the Company will also be dispatched to shareholders in September 2023.

IMPORTANT NOTE

The Company may have an investors' webcast and media conference for these unaudited interim results 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.

The unaudited interim results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. The unaudited interim results have been reviewed by independent auditors but are not a forecast of the annual performance of the Group as a whole.

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, 24 August 2023

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 three Independent Non-executive Directors, namely Mr. Zhang Hongjiang, Mr. Kwok Lam Kwong Larry and Mr. Peng Zhiyuan.