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瑞聲科技控股有限公司
AAC Technologies Holdings Inc.

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2018)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 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 consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2023 together with the comparative figures for the corresponding period in 2022.

These consolidated financial statements have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu and the Company's audit and risk committee (the "**Audit and Risk Committee**") and approved by the Board on 21 March 2024.

2023 FINAL RESULTS HIGHLIGHTS:

(RMB Million)	**2023**	2022	*YoY%*	**2H 2023**	2H 2022	*YoY%*
Revenue	**20,419**	20,625	*-1.0%*	**11,200**	11,213	*-0.1%*
Gross Profit	**3,452**	3,775	*-8.6%*	**2,155**	1,992	*+8.2%*
Gross Profit Margin	***16.9%***	*18.3%*	*-1.4ppts*	***19.2%***	*17.8%*	*+1.4ppts*
Net Profit*	**740**	821	*-9.9%*	**590**	471	*+25.2%*
Net Profit Margin	***3.6%***	4.0%	*-0.4ppts*	***5.3%***	*4.2%*	*+1.1ppts*
Basic EPS (RMB)	**0.63**	0.69	*-8.3%*	**0.50**	0.39	*+27.8%*
Share Numbers (Weighted average, million)	**1,178**	1,198		**1,174**	1,198	

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

CEO STATEMENT

2023 marked a year of challenges and opportunities. Consumer demand became more cautious under the backdrop of global economic cycle and slowdown of product innovation in the first half of the year ("**1H 2023**"). The Group continued to focus on innovation and expansion of new application scenarios. Meanwhile, the Group continued to improve operational efficiency and focused on cash flow management. As of 31 December 2023, the Group's net operating cash inflow reached a record five-year high of RMB4.63 billion, with free cash flow at RMB3.81 billion, hitting a historical record high given stringent management of capital expenditure ("**CAPEX**"). Cash on balance sheet stood at RMB6.82 billion. The healthy cash flow establishes a solid foundation for future market positioning. With the recovery of the macro backdrop and industry in the second half of 2023 ("**2H 2023**"), the Group regained growth momentum in both revenue and profits.

The Group's forward-looking strategic development has achieved breakthroughs in several business segments. In the smartphone sector, multiple business segments have made good progress: both acoustic and electromagnetic products have expanded their shares in the mid-to-high-end market through performance improvement and cost optimization, of which new platforms together with new technologies have driven a rebound in the average selling price ("**ASP**") of acoustic products; in optics, 6P lenses' share of shipments has experienced rapid growth, and the capacity of wafer-level glass ("**WLG**") lenses has been enhanced steadily due to the improvement in the production yield with cumulative shipments of hybrid lenses reaching approximately 8 million units by the end of 2023; the revenue of the precision mechanics business grew by more than 30% year-on-year ("**YoY**"), with the expansion of hinges and heat dissipation business becoming new growth drivers; high-performance microphones powered by artificial intelligence ("**AI**") technologies have begun to show growth momentums. The Group focuses on the deployment of slim, high-performance, and innovative products as well as vertical integration, so as to expand its market coverage and enhance its growth potential.

In the intelligent vehicle sector, the Group will build on the successful acquisition of Premium Sound Solutions ("**PSS**") to integrate the existing products, services and solutions, and strengthen ecosystem cooperation with PSS. By integrating PSS's rich product portfolio, global manufacturing operations as well as its solid existing supply chain relationships with global original equipment manufacturers ("**OEMs**"), the Group is set to provide a broad set of innovative high-quality audio system solutions to elevate the infotainment and sensory experience for users. The Group will accelerate its penetration into the global automotive industry and expand its operation capabilities effectively across all key business areas on a global scale, to better assist customers' future development plans.

"Sensing the world, perceiving the future". In 2024, standing at a new starting point of development, we will continue to forge ahead with a cohesive force. The Group will continue to develop internal and external capabilities. On one hand, the Group will strengthen cooperation with business partners and create more value for customers. On the other hand, the Group will promote lean management by continuous cost reduction and improvement in overall operational efficiency. Through dedication to technological innovation across various verticals, including acoustics, optics, electromagnetics, and precision mechanics, the Group will combine its excellence in hardware and software capabilities to provide global partners with customised solutions in specific application scenarios, and continue to deliver a superior sensory experience in consumer electronics, automotive, augmented reality ("**AR**")/virtual reality ("**VR**"), and other AI-related fields.

On behalf of the Group's management team, I would like to express our gratitude to our partners and shareholders for their trust, patience, and support. I would also like to thank all our employees for their hard work and continuing creativity. The Group will continue to drive the high-quality development of the overall industry and deliver stable long-term returns to shareholders.

BUSINESS AND MARKET REVIEW

In 2023, the global economy still faced with several headwinds including softer consumer demand. According to the report of International Data Corporation ("**IDC**"), global smartphone shipment volume in 2023 decreased by 3.2% YoY to 1.17 billion units. However, the demand for mid-to-high-end smartphones led a recovery trend in 2H 2023. For 2H 2023, the Group's revenue was RMB11.20 billion, remaining flat YoY. The gross profit margin was 19.2%, up 1.4 percentage points ("**ppts**") YoY and 5.1 ppts half-year-on-half-year ("**HoH**"), which indicated a recovery trend. The HoH increase in gross margin was mainly due to the increase in demand for mid-to-high-end models and the traditional peak season for consumer electronics. Net profit was RMB590 million, up 25.2% YoY. In 2023, the Group recorded a revenue of RMB20.42 billion, slightly down 1.0% YoY, with significant increases in precision mechanics and optics businesses revenues. The gross profit margin was 16.9%, down 1.4 ppts YoY mainly due to the lackluster consumer electronics industry demand. With the slow trend in specification upgrade in 1H 2023, net profit was RMB740 million, a decrease of 9.9% YoY.

During the reporting period, the Group remained prudent in financial management and stringently managed capital expenditure and operational expenses. The operating cash inflows were RMB4.63 billion, up 6.0% YoY, and CAPEX amounted to RMB1.38 billion, down 25.4% YoY. Free cash flow was RMB3.81 billion, the highest level since the Group's listing. Cash on book (including short-term fixed deposits) was RMB6.82 billion. The net gearing ratio was 5.1%. The inventory turnover days decreased from 109 days as of 31 December 2022 to 80 days as of 31 December 2023. We believe a sound financial position is crucial to the Group's sustainable development and provides a solid foundation for the Group's future innovation.

After a careful review of the Group's financial liquidity and business development requirements, the Board of Directors proposed to declare a final dividend of HK$0.10 per share for FY 2023 (FY 2022: HK$0.12 per share), implying a total annual dividend amounting to HK$0.10 per share for FY 2023 (FY 2022: HK$0.12 per share) which represents a 15% payout ratio, the same as that of FY 2022. The Group will remain prudent in financial management and strong in cash flow for business development, to create long-term value for shareholders.

PERFORMANCE AND DEVELOPMENT OF BUSINESS SEGMENTS

Acoustics Business

For 2H 2023, the Group's acoustic business revenue was RMB4.18 billion, down 11.5% YoY and up 25.7% HoH. The gross margin was 30.7%, up 1.8 ppts YoY and 5.2 ppts HoH, which was mainly driven by the trend of specification upgrades in downstream customers. In 2023, the Group's acoustic business revenue was RMB7.50 billion, down 15.4% YoY, mainly due to the slower-than-expected recovery of global smartphone market demand in 1H 2023. Despite the demand recovery in 2H 2023, the annual shipment of acoustic products still declined YoY. The gross margin was 28.4%, a slight increase of 0.3 ppts YoY.

In 2023, the Group continued to strengthen close cooperation with customers through strong project experience, leading technology, and efficient operational and manufacturing capabilities to actively support customers' technological innovation roadmap. We expect the market share of the acoustics business to increase steadily in 2024. The Group has been continuously developing leading smartphone acoustics technologies: the master-level super linear speakers ("**SLS**") have been receiving positive feedbacks from customers for its "small cavity + ultra-thin" design and combination of non-linear control ("**NLC**") and directional algorithms. The shipment volume of master-level SLS products exceeded 10 million units in 2023, achieving leapfrog growth; the high-quality solution Opera has gained great interest from customers due to its incredibly augmented soundstage for the same speaker size. The Group has built up an integrated solution for smartphone acoustics, including high-performance linear speakers, multi-speaker arrays, and proprietary algorithms. Looking forward, the Group will focus on innovative solutions with slim hardware design and high performance, delivering immersive auditory experiences for customers in more diverse application scenarios through a broader product portfolio.

In the automotive business, the Group has been continuously delivering car speaker products. The Group sped up the pace of penetrating the auto customer market and partnered with several recently released new energy vehicle models, launching innovative speaker products that are recognised for their miniaturization, lightweight, high performance, and high adaptability. These products have quickly been adopted in cars. In addition, several amplifier products have been successfully developed and gradually stepped into mass production and delivery. Going forward, the Group will support our customers in improving the precision and comfort of intelligent interactions and creating a cockpit space with superior aesthetics and experience.

Optics Business

In 2H 2023, the Group's optics business recorded revenue of RMB1.86 billion, up 36.0% YoY and 4.8% HoH, benefitting from the continuous improvement of product mix and the easing intensity of industry competition. The gross margin was -9.2%, up 20.5 ppts YoY and 7.8 ppts HoH, which was mainly due to the smooth progress of product upgrades in plastic lens and optics module businesses and the increase in market share in the mid-to-high-end models. In 2023, the Group's optics business revenue was RMB3.63 billion, up 12.7% YoY. The gross profit margin was -13.0%, remaining flat YoY.

In 2023, the Group placed great emphasis on optimizing the product mix of plastic lenses and the shipment volume of high-specification lenses such as 5P and above rose by roughly 48% YoY to more than 350 million units, accounting for approximately 70% of the total plastic lenses shipment, of which 6P lenses accounted for approximately 14%, representing an increase of 5 ppts YoY. The Group has made breakthroughs in the high-end and flagship projects of many customers. Optical image stabilizer ("**OIS**") modules started mass production and shipment, continuously providing customers with a differentiated imaging experience. Additionally, high-value optical transmission projects are expected to start shipping in 2024. The production efficiency of non-spherical glass lenses for smartphones has been significantly improved, laying a solid foundation for expanding customer base. The shipment volume of WLG hybrid lenses exceeded 3 million units, representing a YoY growth of about 22%. Besides the stable delivery to the smartphone sector, the hybrid lenses are also in continuous shipment and steady delivery in non-smartphone sectors including automotive cameras, action cameras, drones, etc. The Group will continue to enhance vertical integration capabilities, optimize optics modules and voice coil motor ("**VCM**") business to achieve market share gain in mid-to-high-end optics products, and will actively optimize internal management and operational efficiency, balancing certainty and growth to achieve high-quality development.

Electromagnetic Drives and Precision Mechanics Business

In 2H 2023, the consolidated segment's revenue increased by 6.5% YoY and 27.8% HoH to RMB4.63 billion as more high-end, flagship, and foldable smartphones adopted the Group's haptics and metal casing products, and the segment experienced an increase in shipment volume of innovative products such as metal hinges and vapor chambers ("**VC**"). The gross margin was 20.7%, slightly down by 1.3 ppts YoY but up by 1.4 ppts HoH. In 2023, the consolidated segment's revenue rose by 13.3% YoY to RMB8.25 billion. The gross margin stood relatively stable at 20.1%, slightly down by 1.2 ppts YoY, mainly due to the increase in the revenue proportion of the precision mechanics business.

Electromagnetic Drives Business

The Group's x-axis haptics motors achieved an annual growth of 13.3% in shipment volume against the backdrop of a slow recovering global smartphone market especially in 1H 2023, with an expansion of its market share in flagship models. This was mostly attributed to its edges in start-stop speed, vibration frequency, and conversion efficiency. The Group also established a biomimetic tactile laboratory to strengthen the integration of motor hardware, drive chips, and software algorithms across the entire supply chain. We work closely with downstream customers and provide them with one-stop hardware tuning, software integration, tactile feedback design, and consulting services through our RichTap® tactile solution. In addition to a leading position in the smartphone field, the Group's haptics products have been continuously increasing penetration across smartwatches, tablets, intelligent automobiles, game consoles, and VR/AR devices. The Group places a high priority on the long-term value of motor modules.

Precision Mechanics Business

In 2023, the revenue of smartphone metal casing grew by 34.3% YoY, with both the shipment volume and ASP of metal casing showing double-digit growth. This segment has maintained a leading market share in high-end and flagship models of major customers. The Group has continued efforts in expanding high-value business such as metal hinges which were mass-produced for the first time in 2H 2023 and delivered nearly 700,000 units for the entire year. These hinge products feature new materials, innovative processes, and revolutionary structures, achieving an ultra-thin and robust folding experience. Benefitting from the Group's leading capabilities in simulation design, technology development, and automated production, the revenue from heat dissipation products rose by more than 100% YoY. The Group is able to offer a slim product design while significantly enhancing the smartphone's heat dissipation performance. Amid the trend of continuous upgrades in smartphone chip specifications and more scenarios where end consumers use high-power applications, such as gaming, there is an elevated demand from downstream handset manufacturers for more advanced specifications in heat dissipation components, which is expected to bring broader market opportunities to the Group.

Sensor and Semiconductor Business

In 2H 2023, the sensor and semiconductor ("**SSE**") business revenue was RMB531 million, representing a YoY decrease of 31.7% and an HoH increase of 7.5%, benefitting from the marginal recovery of smartphone market demand and the Group's further penetration in Android market. The gross margin was 15.7%, up by 5.3 ppts YoY and 4.4 ppts HoH, respectively, mainly due to changes in product mix. In 2023, the SSE business recorded a revenue of RMB1.03 billion, representing a YoY decrease of 18.4%, mainly due to the weak demand for consumer electronics in 1H 2023. The gross margin increased by 2.0 ppts YoY to 13.6%, mainly influenced by changes in product mix.

The Group currently operates three micro-electro-mechanical systems ("**MEMS**") product manufacturing bases in Nanning, Shenzhen, and Malaysia, aiming to create a well-coordinated global presence to flexibly allocate production resources to meet the needs of different customers. In terms of products and technology, the Group continued to promote its proprietary high-performance MEMS microphones, and the shipment proportion of Android mid-to-high-end products grew by approximately 17 ppts YoY to more than 50%, leading the industry to upgrade towards mid and higher-end products. In IoT, the Group launched the innovative MEMS speaker product SOPRANO, which supported true wireless stereo ("**TWS**") device manufacturers to achieve high-definition audio reproduction in limited space. With the wave of AI which drives increasing demand for intelligent voice interaction, the SSE business will foresee an expansion in more development opportunities.

Prospects

The Group has on 9 February 2024 completed the first tranche of the acquisition of Acoustic Solutions International B.V. such that PSS became an 80% owned subsidiary of the Group, and effective from then, its financial results will be consolidated.

This acquisition is a strategic move to accelerate the Group's diversification into the automotive industry and to enhance its acoustic capabilities. Not only broadens the Group's product portfolio, it represents a significant transformation in business development. The synergies from both PSS and the Group's existing businesses will further enhance the Group's market positioning. The Group will rely on its technology and resource advantages, combined with PSS's rich product portfolio, global manufacturing operations, and solid supply chain relationships with global OEMs, to provide innovative high-quality audio system solutions to enhance automotive infotainment and sensory experience. By accelerating its penetration into the global automotive industry and, at the same time, expanding its operation capabilities effectively across all key business areas worldwide, the Group will be able to contribute to our customers' ambitions in business development.

The Group has been focusing on efforts in the extended reality ("**XR**") field and aims to become a major technology provider for the upcoming entertainment interaction revolution. The Group's XR acoustic solutions have been delivered to numerous top global XR companies which highly recognise the products due to their ultra-thin size, leak-proof acoustic design, and near-field algorithms. The motor-related business is also progressing well with customers. The Group's partnership with Dispelix to develop a new generation of single-layer full-colour optical waveguide lenses has laid a foundation for the Group's further development plan in AR optics. Additionally, the successful mass production of the 3P Pancake will enhance the Group's capability in the VR space. The Group will leverage its one-stop integrated solution for AR/VR and work with top industry partners worldwide to form its industry-leading service capabilities covering the areas of acoustics, optics, and haptics.

The Group will continue to maintain its leading market position in the smartphone industry, and explore more opportunities in mid-to-high-end models including emerging categories such as foldable devices, while aiming for better returns through continuous technological upgrades and operational efficiency improvements. Meanwhile, thriving technological advancements such as AI and XR call for higher-grade product design and manufacturing capabilities. The Group will leverage its technological know-how and provide customers with superior sensory solutions across multiple application scenarios.

FINANCIAL REVIEW

Revenue

In 2023, the Group's revenue decreased YoY by 1.0% to RMB20.42 billion. Owing to factors discussed under "BUSINESS AND MARKET REVIEW" above, revenue from the acoustics and sensor and semiconductor business decreased by RMB1,369 million and RMB231 million respectively, while revenue from electromagnetic drives and precision mechanics and optics business increased by RMB967 million and RMB410 million respectively.

Gross Profit and Gross Profit Margin

In 2023, gross profit was RMB3.45 billion, representing a decrease by 8.6% from the gross profit of RMB3.78 billion in 2022. The drop in gross profit was mainly contributed by market competition in acoustics and optics business and the decline was partly offset by the improved gross profit of electromagnetic drives and precision mechanics business.

Gross profit margin decreased to 16.9% in 2023 as compared with 18.3% in 2022. The decline in gross profit margin was mainly contributed by the decreased sales from acoustics business with higher gross profit margin.

Other Income and Other Expenses

The net other income and other expenses increased by RMB229 million. This was mainly contributed by the increase in interest income of RMB154 million and the decrease in restructuring costs of RMB125 million. The increment was offset by the decrease in government grants of RMB56 million.

Administrative Expenses

Administrative expenses in 2023 were RMB978 million, 5.6% lower compared with RMB1,036 million in 2022. The decrease was mainly contributed by the decrease in share incentive schemes expenses.

Distribution and Selling Expenses

Distribution and selling expenses in 2023 were RMB443 million, 1.0% lower compared with RMB448 million in 2022. The decrease was mainly contributed by the decrease in delivery and shipping expenses.

Research and Development Expenses

Research and Development ("**R&D**") expenses in 2023 were RMB1,573 million, increased by 1.8% compared with RMB1,546 million in 2022. The increase was mainly contributed by increase in R&D related to the new vehicle and AR/VR business, in line with the Group's plan for a significant growth in production and shipments in the future.

Finance Costs

Finance costs in 2023 were RMB391 million, 3.0% lower compared with RMB403 million in 2022. Such decrease was mainly due to the decrease in interest on contingent settlement provision accompanied with the repurchase of approximately 7.1670% of the equity interest in AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**") in September 2023.

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 2023 amounted to RMB252 million, representing an increase of 9.0% from RMB231 million in 2022. The increase was mainly due to RMB28 million of deferred tax charge in 2023 while RMB16 million of deferred tax credit in 2022 relating to tax losses and other temporary difference.

Profit attributable to the Owners of the Company

Reported profit attributable to the owners of the Company for 2023 was RMB740 million, a decline of 9.9% compared with RMB821 million in 2022. The decline was mainly due to the decline of gross profit which was partly offset by the increase in net other income and exchange gain incurred during the year and the decrease in operating costs and finance costs.

Earnings before Interest, Taxes, Depreciation and Amortization

As compared with last year, the EBITDA for 2023 decreased by 1.6% to RMB4,183 million compared with RMB4,251 million in 2022.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December	
	2023	2022
	RMB million	*RMB million*
Net cash from operating activities	**4,632.5**	4,372.0
Net cash used in investing activities	**(1,511.8)**	(2,349.3)
Net cash used in financing activities	**(3,170.6)**	(1,438.7)

Operating Activities

Cash inflows from operating activities were 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 RMB4,632.5 million for 2023 (2022: RMB4,372.0 million).

i. Trade Receivables and Payables

As at 31 December 2023, turnover days of trade receivables increased by 8 days to 86 days as compared to 31 December 2022. Trade receivables increased by RMB1.08 billion to RMB5.36 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 RMB5,197.8 million (31 December 2022: RMB4,098.4 million), RMB150.0 million (31 December 2022: RMB169.8 million) and RMB14.3 million (31 December 2022: RMB10.5 million) respectively. The Company has received subsequent settlement totaling RMB3,084.1 million up to 29 February 2024, representing 57.5% 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 2 days to 79 days as compared to 31 December 2022. Trade payables increased by RMB0.82 billion to RMB4.06 billion. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,366.3 million (31 December 2022: RMB2,576.8 million), RMB674.0 million (31 December 2022: RMB654.9 million) and RMB20.4 million (31 December 2022: RMB11.2 million) respectively.

ii. Inventory Turnover

As at 31 December 2023, the inventories have decreased by RMB1.41 billion compared to 31 December 2022. The inventory turnover days decreased to 80 days as at 31 December 2023 from 109 days for 31 December 2022.

Investing Activities

Net cash used in investing activities in 2023 amounted to RMB1,511.8 million (2022: RMB2,349.3 million). It mainly represented the cash used in CAPEX of RMB1,363.9 million (2022: RMB1,768.0 million), addition of intangible assets of RMB176.0 million (2022: 156.8 million) and acquisition of financial assets at FVTPL and equity instruments at FVTOCI of RMB250.3 million (2022: RMB273.4 million), offsetted by the cash inflows arising from the interest received of RMB191.7 million (2022: RMB39.9 million) as well as the withdrawal of short-term fixed deposits of RMB341.3 million (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 2023 and 2022, total CAPEX incurred were RMB1,378.5 million and RMB1,847.5 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 RMB3,170.6 million for 2023 (2022: RMB1,438.7 million), which was due to major outflows from repayment of bank loans of RMB5,200.7 million (2022: RMB3,021.2 million), return of capital contributions from non-controlling interests of a subsidiary of RMB1,449.0 million (2022: RMB139.6 million), shares repurchased of RMB353.8 million (2022: RMB127.9 million), payment for repurchase of unsecured notes of RMB443.8 million (2022: RMB949.7 million) and dividends paid of RMB130.3 million (2022: Nil), and major inflows was due to bank loans raised of RMB4,824.6 million (2022: RMB3,243.2 million).

Cash and Cash Equivalents and Short Term Fixed Deposits

As at 31 December 2023, the unencumbered cash and cash equivalents and short term fixed deposits of the Group amounted to RMB6,824.5 million (31 December 2022: RMB7,155.0 million), of which 65.2% (31 December 2022: 55.7%) was denominated in US dollar, 30.5% (31 December 2022: 39.8%) in RMB, 1.7% (31 December 2022: 0.2%) in Singapore dollar, 0.6% (31 December 2022: 2.5%) in Hong Kong dollar, 0.5% (31 December 2022: 0.5%) in Vietnamese Dong, 0.5% (31 December 2022: 0.5%) in Euros, 0.2% (31 December 2022: 0.2%) in Malaysian Ringgit and 0.8% (31 December 2022: 0.6%) in other currencies.

Gearing Ratio and Indebtedness

As at 31 December 2023, the Group's gearing ratio, defined as total loans and unsecured notes divided by total assets, was 22.6% (31 December 2022: 23.9%). Netting off cash and cash equivalents and short term fixed deposits, net gearing ratio was 5.1% (31 December 2022: 6.2%).

As at 31 December 2023, the unsecured notes of the Group were RMB5,619.7 million (31 December 2022: RMB6,087.8 million), the short-term bank loans and long-term bank loans of the Group amounted to RMB1,463.9 million (31 December 2022: RMB1,832.6 million) and RMB1,726.0 million (31 December 2022: RMB1,727.2 million) respectively.

Charges on Group Assets

Apart from pledged bank deposits amounting to RMB15.1 million as at 31 December 2023 (31 December 2022: RMB0.2 million) and restricted bank deposits amounting to RMB6.2 million as at 31 December 2023 (31 December 2022: Nil), no other group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 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 29 to the Consolidated Financial Statements.

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 80.8% of the Group's total revenue for 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 three years. The credit terms granted to them are in the range of 45- 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 R&D to build broad sustainable technology roadmaps and intellectual property portfolios.

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

Liquidity and Interest Rate Risks

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

The Group is exposed to interest rate risks on its bank loans for working capital and CAPEX that are associated with the expansion of the Group. The Group focuses on mitigating the liquidity and interest rate risks, with an appropriate mix of RMB/USD 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, restricted 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.

On-going Global Trade Frictions

Prolonged trade frictions might lead to a slowdown of the global consumer electronic market and a decline in 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, other related laws and regulations including export controls, economic sanctions 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 is committed to complying with applicable laws and regulations related to export controls and economic sanctions. As at the date of this announcement, the Group's results of operations have not been materially affected by the expansion of relevant laws and regulations such as export control and economic sanctions, or the new 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.

FINANCIAL INFORMATION

The financial information relating to the years ended 31 December 2023 and 2022 in this announcement does not constitute the Company's statutory consolidated financial statements for those years, but represents an extract from those consolidated financial statements. The final results of the Group for the year ended 31 December 2023 have been reviewed by the Audit and Risk Committee of the Company.

The Company has delivered the consolidated financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and will deliver the consolidated financial statements for the year ended 31 December 2023 in due course. The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under Sections 406(2), 407(2) or (3) of the Companies Ordinance.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 21 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	**2023** *RMB'000*	2022 *RMB'000*
Revenue	*3*	**20,419,072**	20,625,092
Cost of goods sold		**(16,967,406)**	(16,850,062)
Gross profit		**3,451,666**	3,775,030
Other income	*5*	**590,618**	487,269
Other expenses	*5*	**-**	(125,222)
Other gains and losses	*6*	**151,883**	163,013
Share of results of an associate		**(265)**	(1,170)
Distribution and selling expenses		**(443,066)**	(447,731)
Administrative expenses		**(978,066)**	(1,035,565)
Research and development costs		**(1,573,435)**	(1,546,338)
Exchange gain (loss)		**14,350**	(5,523)
Finance costs	*4*	**(390,824)**	(403,084)
Profit before taxation	*7*	**822,861**	860,679
Taxation	*8*	**(252,254)**	(231,496)
Profit for the year		**570,607**	629,183
Loss for the year attributable to non-controlling interests		**(169,763)**	(192,122)
Profit for the year attributable to owners of the Company		**740,370**	821,305
Earnings per share			
- Basic	*10*	**RMB0.63**	RMB0.69
- Diluted	*10*	**RMB0.60**	RMB0.66

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	**2023**	2022
		RMB'000	*RMB'000*
Profit for the year		**570,607**	629,183
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")		**(9,886)**	(573,169)
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments		**11,782**	3,705
Loss (gain) reclassified to profit or loss on hedged items		**1,906**	(21,324)
Exchange differences arising on translation of foreign operations		**38,193**	(312,930)
Total comprehensive income (expense) for the year		**612,602**	(274,535)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**780,075**	(78,332)
Non-controlling interests		**(167,473)**	(196,203)
		612,602	(274,535)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	NOTES	**2023**	2022
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment	*11*	**18,070,355**	19,301,682
Right-of-use assets	*12*	**1,798,372**	1,959,117
Goodwill		**275,365**	275,365
Deposits made for acquisition of property, plant and equipment		**162,589**	231,906
Escrow deposit for acquisition of a subsidiary		**283,308**	-
Investment properties	*13*	**127,576**	10,078
Interest in an associate		**3,033**	3,299
Equity instruments at FVTOCI	*14*	**457,011**	467,057
Financial assets at fair value through profit and loss ("FVTPL")	*15*	**413,301**	186,303
Intangible assets		**588,623**	563,954
Deferred tax assets	*24*	**204,242**	228,401
		22,383,775	23,227,162
Current assets			
Inventories		**2,992,360**	4,401,418
Trade and other receivables	*17*	**6,653,431**	5,531,160
Amounts due from related companies		**9,892**	8,259
Taxation recoverable		**22,639**	20,069
Derivative financial instruments		**2,869**	-
Pledged bank deposits		**15,085**	200
Restricted bank deposits		**6,207**	-
Short term fixed deposits		**-**	341,265
Cash and cash equivalents		**6,824,525**	6,813,725
		16,527,008	17,116,096
Current liabilities			
Trade and other payables	*18*	**5,796,468**	4,958,743
Contract liabilities	*18*	**15,868**	30,435
Amounts due to related companies		**32,323**	23,182
Taxation payable		**100,542**	117,762
Bank loans	*20*	**1,463,885**	1,832,603
Unsecured notes	*21*	**1,957,575**	-
Government grants	*23*	**122,928**	138,007
Lease liabilities	*19*	**389,309**	292,087
Derivative financial instruments	*16*	**-**	8,326
Contingent settlement provision	*22*	**250,490**	1,653,461
		10,129,388	9,054,606
Net current assets		**6,397,620**	8,061,490
Total assets less current liabilities		**28,781,395**	31,288,652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	NOTES	**2023** ***RMB'000***	2022 *RMB'000*
Non-current liabilities			
Bank loans	*20*	**1,726,000**	1,727,200
Unsecured notes	*21*	**3,662,120**	6,087,845
Government grants	*23*	**508,806**	640,368
Lease liabilities	*19*	**380,886**	485,095
Deferred tax liabilities	*24*	**47,108**	42,847
Derivative financial instruments	*16*	**-**	7,706
Other payables	*18*	**85,206**	101,976
		6,410,126	9,093,037
Net assets		**22,371,269**	22,195,615
Capital and reserves			
Share capital	*25*	**97,321**	97,708
Reserves		**21,784,131**	21,558,537
Equity attributable to owners of the Company		**21,881,452**	21,656,245
Non-controlling interests		**489,817**	539,370
Total equity		**22,371,269**	22,195,615

1. GENERAL

AAC Technologies Holdings Inc. ("**the Company**") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company.

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

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

<u>New and amendments to IFRSs that are mandatorily effective for the current year</u>

In the current year, 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 Group's annual period beginning on 1 January 2023 for the preparation of the 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
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

New and amendments to IFRSs that are mandatorily effective for the current year - continued

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

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

In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

(ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group disclose the related deferred tax assets of RMB97,624,000 and deferred tax liabilities of RMB97,269,000 as at 1 January 2022 on a gross basis in note 24 but it has no impact on the retained earnings at the earliest period presented.

Impacts on application of Amendments to IAS12 "International Tax Reform-Pillar Two model Rules"

The Group has applied the amendments for the first time in the current year. 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 ("**OECD**") (the "**Pillar Two legislation**") . The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, 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 has applied the temporary exception immediately upon issue of these amendments and retrospectively, i.e. applying the exception from the date Pillar Two legislation is enacted or substantially enacted. The information about the Group's exposure to Pillar Two income taxes is set out in note 8.

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

New and amendments to IFRSs that are mandatorily effective for the current year - continued

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

The Group has applied the amendments for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in note 3 to the consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

[1] Effective for annual periods beginning on or after a date to be determined.
[2] Effective for annual periods beginning on or after 1 January 2024.
[3] Effective for annual periods beginning on or after 1 January 2025.

The Directors of the Company anticipate that the application of all amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

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

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

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 transferred.

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

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

Information regarding these segments is presented below.

3. REVENUE AND SEGMENT INFORMATION - continued

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

	2023	2022
	RMB'000	*RMB'000*
Operating and reportable segments		
Segment revenue - recognised at a point in time		
Acoustics products	**7,498,965**	8,868,384
Electromagnetic drives and precision mechanics	**8,245,314**	7,278,046
Optics products	**3,626,935**	3,217,294
Sensor and semiconductor products	**1,025,076**	1,256,404
Other products	**22,782**	4,964
Revenue	**20,419,072**	20,625,092
Segment results		
Acoustics products	**2,130,145**	2,492,387
Electromagnetic drives and precision mechanics	**1,656,075**	1,552,704
Optics products	**(471,644)**	(416,721)
Sensor and semiconductor products	**139,251**	146,106
Other products	**(2,161)**	554
Total profit for operating and reportable segments	**3,451,666**	3,775,030
Unallocated amounts:		
Other income	**590,618**	487,269
Other expenses	**-**	(125,222)
Other gains and losses	**151,883**	163,013
Share of results of an associate	**(265)**	(1,170)
Distribution and selling expenses	**(443,066)**	(447,731)
Administrative expenses	**(978,066)**	(1,035,565)
Research and development costs	**(1,573,435)**	(1,546,338)
Exchange gain (loss)	**14,350**	(5,523)
Finance costs	**(390,824)**	(403,084)
Profit before taxation	**822,861**	860,679

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit (loss) earned by each segment without allocation of other income, other expenses, 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.

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. Amortisation and depreciation charges related to assets employed by different segments are presented to the key operating decision makers for review.

3. REVENUE AND SEGMENT INFORMATION - continued

Amortisation and depreciation included in measure of segment results are as follows:

	2023	2022
	RMB'000	*RMB'000*
Acoustics products	**1,070,453**	1,184,138
Electromagnetic drives and precision mechanics	**700,821**	644,951
Optics products	**583,342**	528,713
Sensor and semiconductor products	**59,734**	56,140
Other products	**5,231**	10,877
Amounts included in cost of inventories	**2,419,581**	2,424,819
Unallocated portion	**549,236**	562,180
	2,968,817	2,986,999

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

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

	2023	2022
	RMB'000	*RMB'000*
Greater China* (country of domicile)	**10,313,354**	8,696,523
Other foreign countries:		
Other Asian countries	**1,205,073**	1,437,549
America	**8,852,858**	10,489,800
Europe	**47,787**	1,220
	20,419,072	20,625,092

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

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

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB15,137,352,000 (2022: RMB14,657,229,000). The total amount of revenue by each customer and number of customers are not disclosed, as in the opinion of the management such disclosure is harmful to the Group's business.

4. FINANCE COSTS

	2023	2022
	RMB'000	*RMB'000*
Interest on bank loans	**102,892**	80,072
Interest on unsecured notes	**214,385**	236,876
Interest on lease liabilities	**26,910**	25,289
Interest on contingent settlement provision	**46,637**	62,620
	390,824	404,857
Less: Finance costs capitalised in qualifying assets	**-**	(1,773)
	390,824	403,084

5. OTHER INCOME AND OTHER EXPENSES

Other income and other expenses mainly comprise of:

	2023	2022
	RMB'000	*RMB'000*
(A) Other income		
Government grants (Note a)	**329,554**	385,264
Interest income	**207,819**	53,858
Rental income	**10,972**	9,525
(B) Other expenses		
Restructuring costs (Note b)	**-**	(125,222)

Notes:

(a) Included in the amount is RMB213,023,000 (2022: RMB235,550,000) representing the amortisation of government grants as detailed in note 23. In addition, during the year ended 31 December 2022, the Group recognised government grants of RMB1,842,000 (2023: Nil) in respect of Covid-19-related subsidies. The remaining amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved during the year of recognition with no unfulfilled conditions/contingencies.

(b) The Group launched the restructuring plan in 2022 to enhance cost efficiency and loss on disposal/write-off of property, plant and equipment of RMB61,573,000 and redundancy cost of RMB63,649,000 were recognised in profit or loss in 2022.

6. OTHER GAINS AND LOSSES

Other gains and losses mainly comprise of:

	2023	2022
	RMB'000	*RMB'000*
Gain on repurchase of unsecured notes (note 21)	**138,433**	168,793
Gain (loss) on disposal/write-off of property, plant and equipment	**8,601**	(14,353)
Loss on fair value change of financial assets at FVTPL	**(6,724)**	-
Gain from changes in fair value of derivative financial instruments	**-**	5,308
Gain on termination of leases	**847**	429
Gain on derecognition of right-of-use assets	**-**	2,836

7. PROFIT BEFORE TAXATION

	2023	2022
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**11,200**	15,790
Other staff's retirement benefits scheme contributions	**582,858**	624,047
Other staff costs	**3,980,006**	4,485,645
Total staff costs (Note a)	**4,574,064**	5,125,482
Depreciation of property, plant and equipment	**2,626,221**	2,690,348
Depreciation of right-of-use assets	**214,295**	212,896
Total depreciation (Note b)	**2,840,516**	2,903,244
Depreciation of right-of-use assets capitalised in qualifying assets	**(25,127)**	(28,860)
	2,815,389	2,874,384
(Reversal of) allowance for inventories net, included in cost of goods sold	**(1,810)**	273,910
Amortisation of intangible assets (Note c)	**149,318**	111,421
Auditor's remuneration	**3,674**	3,831
Cost of inventories recognised as expense	**16,969,216**	16,576,152
Cost of raw materials included in research and development costs	**144,828**	180,246
Depreciation of investment property	**4,110**	1,194
Reversal of impairment loss on trade receivables	**(23)**	(1,989)
Short-term and low value asset leases expense	**53,069**	41,293

7. PROFIT BEFORE TAXATION - continued

Notes:

(a) Staff costs of RMB979,975,000 (2022: RMB958,359,000) had been included in research and development costs.

(b) Depreciation of RMB264,830,000 (2022: RMB249,022,000) had been included in research and development costs.

(c) Amortisation of intangible assets of RMB111,104,000 (2022: RMB73,675,000) had been capitalised in inventories while RMB26,834,000 (2022: RMB26,366,000) and RMB11,380,000 (2022: RMB11,380,000) had been included in research and development costs and administrative expenses, respectively.

8. TAXATION

	2023	2022
	RMB'000	*RMB'000*
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**149,032**	206,117
Other jurisdictions	**79,564**	62,858
PRC and overseas withholding tax	**1,181**	151
Over provision of taxation in prior years	**(5,419)**	(21,747)
	224,358	247,379
Deferred tax (see note 24)	**27,896**	(15,883)
	252,254	231,496

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 years, 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.

8. TAXATION - continued

In addition, certain PRC subsidiaries were officially endorsed as High and New Technology Enterprises ("**HNTE**") till the date ranging from 2023 to 2025 (2022: 2023 to 2024). Pursuant to the EIT Law, those PRC subsidiaries endorsed as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive program which is granted based on the fulfilment of carrying out qualifying business activities. This incentive program is effective from 1 January 2019 for 10-year period.

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

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

OECD Pillar Two model rules

The Group is within the scope of OECD Pillar Two model rules. The Group has applied the temporary exception from accounting for deferred taxes arising from Pillar Two model rules, as provided in the amendments to IAS 12 issued in July 2023. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Group operates. The legislation will be effective for the Group's financial year beginning on 1 January 2024 for Czech Republic, Denmark, Finland, Japan, Korea, United Kingdom and Vietnam or 1 January 2025 for Malaysia .

The Group has performed a preliminary assessment of the Group's potential exposure to Pillar Two income taxes for the year ending on 31 December 2024. The assessment that is being carried out is based on the latest country-by-country reporting and the financial information for financial year 2022.

Based on the assessment carried out so far, it is noted that the Pillar Two legislation has been enacted/substantially enacted for Czech Republic, Denmark, Finland, Japan, Korea, Malaysia, United Kingdom and Vietnam in which the Group has operations in. The Group may potentially avail of the transitional country-by-country reporting safe harbour rules to mitigate its exposure to Pillar Two income taxes for the abovementioned jurisdictions where the Group has operations in and where the Pillar Two legislation has been enacted or substantively enacted with the exception of Vietnam. Accordingly, the Group currently does not expect a material exposure to Pillar Two top up taxes in those jurisdictions. With respect to Vietnam, the Group has identified potential exposure to Pillar Two income taxes on profits earned by the constituent entities in Vietnam. However, exposure may also exist in other jurisdictions where the assessment is in progress.

Quantitative information to indicate potential exposure to Pillar Two income taxes is currently not known or reasonably estimable. The Group will continue to progress on the assessment and the accounting implications accordingly.

8. TAXATION - continued

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

	2023	2022
	RMB'000	*RMB'000*
Profit before taxation	**822,861**	860,679
Tax at the applicable income tax rate (Note a)	**205,715**	215,170
Tax effect of income not taxable for tax purpose	**(116,893)**	(76,212)
Tax effect of expenses not deductible for tax purpose	**43,455**	108,574
Tax effect of tax holiday and concession	**(99,147)**	(136,089)
Tax effect of tax losses not recognised	**440,694**	369,845
Tax effect on temporary differences for which no deferred income tax assets were recognised	**1,270**	1,690
Recognition of deductible temporary differences previously not recognised	**-**	(43,332)
Utilisation/recognition of tax losses previously not recognised	**(15,592)**	(17,087)
Effect of super deduction for research and development cost (Note b)	**(143,275)**	(129,090)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(62,242)**	(44,857)
Over provision in prior years	**(5,419)**	(21,747)
PRC and overseas withholding tax	**1,181**	151
Others	**2,507**	4,480
Tax charge for the year	**252,254**	231,496

Notes:

(a) The PRC EIT rate of 25% (2022: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

(b) 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 years ended 31 December 2022 and 2023.

9. DIVIDENDS

	2023	2022
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2022 final dividend of HK$0.12 (2021: Nil) per ordinary share	**130,330**	-

Subsequent to the end of the reporting period, a final dividend of HK$0.10 (2022: HK$0.12) per share has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2023	2022
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	**740,370**	821,305
Effect of share of loss of subsidiaries (Note a)	**(29,790)**	(30,657)
Earnings for the purpose of diluted earnings per share	**710,580**	790,648

	2023	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 (Note b)	**1,177,973**	1,198,193
Effect of dilutive potential ordinary shares:		
Adjustment in relation to share awards granted by the Company	**5,008**	3,112
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,182,981**	1,201,305

Notes:

(a) Adjustment to the share of loss of subsidiaries based on dilution of the loss per share arising from the effect of contingent settlement provision.

(b) The weighted average number of ordinary shares has been calculated taking into account the shares repurchased by the Group or held by the Trustee (as defined in note 26) under share award scheme.

The computation of diluted earnings per share for both years ended 31 December 2023 and 2022 did not consider the effect arising from the unvested restricted shares granted by a subsidiary as set out in note 26 as the exercise would result in an increase in earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB1,472,902,000 (2022: RMB1,948,180,000). Part of the consideration of RMB231,906,000 (2022: RMB317,127,000) was paid up in advance in prior year.

During the year, the Group disposed/write-off of certain property, plant and equipment with an aggregate carrying amount of RMB4,132,000 (2022: RMB81,751,000) for proceeds of RMB12,733,000 (2022: RMB5,825,000) and resulting in a gain on disposal of RMB8,601,000 (2022: loss on disposal of RMB75,926,000).

Also, during the year, property, plant and equipment with an aggregate carrying amount of RMB113,590,000 is transferred to investment properties (2022: Nil).

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

Impairment assessment

Due to the loss from the optics products segment, the management of the Group conducted impairment assessment on certain property, plant and equipment, right-of-use assets and intangible assets with finite useful lives with carrying amounts of RMB5,382,981,000, RMB342,511,000 and RMB91,558,000 (2022: RMB5,824,319,000, RMB383,727,000 and 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 15.8% (2022: 11.7%) as at 31 December 2023. The cash flows beyond 5-year period are extrapolated using 2.5% (2022: 3%) growth rate for the relevant industry. 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. The estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in both years due to uncertainty on the volatility in financial markets, including potential disruptions of the Group's operations.

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 believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss, and concluded that no impairment loss has been recognised for the both years ended 31 December 2023 and 2022.

12. RIGHT-OF-USE ASSETS

	Leasehold land *RMB'000*	Buildings *RMB'000*	Machineries *RMB'000*	Total *RMB'000*
As at 31 December 2023				
Carrying amount	1,289,143	509,229	-	1,798,372
As at 31 December 2022				
Carrying amount	1,337,031	622,086	-	1,959,117
For the year ended 31 December 2023				
Depreciation charge	40,909	173,386	-	214,295
Capitalised in construction in progress	(25,127)	-	-	(25,127)
	15,782	173,386	-	189,168
For the year ended 31 December 2022				
Depreciation charge	41,239	165,792	5,865	212,896
Capitalised in construction in progress	(25,128)	(3,732)	-	(28,860)
	16,111	162,060	5,865	184,036

	2023 ***RMB'000***	2022 *RMB'000*
Expense relating to short-term leases	**52,262**	40,588
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**807**	705
Total cash outflow for leases	**149,042**	198,318
Additions to right-of-use assets	**62,408**	219,148
Acquisition of a subsidiary	**-**	56

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

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

As at 31 December 2023 and 2022, the Group has obtained the land use right certificates for all leasehold lands.

12. RIGHT-OF-USE ASSETS - continued

The Group regularly entered into short-term leases for certain building premises and machineries, etc. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed above.

During the year, the Group entered into new lease agreements for the use of leasehold land, buildings and machineries from 1.5 years to 6 years (2022: 2 years to 50 years). On the lease commencement, the Group recognised right-of-use asset of RMB62,408,000 and lease liabilities of RMB61,987,000 (2022: right-of-use assets of RMB209,469,000 and lease liabilities of RMB208,901,000). Except for the payment made on the acquisition of leasehold land of RMB9,679,000 during the year ended 31 December 2022, the recognition of the remaining newly added right-of-use assets constitutes non-cash transactions.

During the year ended 31 December 2023, leasehold land of RMB8,018,000 is transferred to investment properties (2022: Nil) upon the end of owner-occupation.

During the year ended 31 December 2023, the Group early terminated certain leases which constitutes lease modification. As a result, the Group has derecognised right-of-use assets of RMB6,063,000 (2022: RMB8,815,000) and lease liabilities of RMB6,910,000 (2022: RMB9,244,000), and a gain of lease termination of RMB847,000 (2022: RMB429,000) was recognised in profit or loss. In addition, during the year ended 31 December 2022, the Group returned the leasehold land with the carrying amount of RMB20,926,000 to the government at a consideration of RMB23,762,000, and a gain on derecognition of right-of-use assets of RMB2,836,000 was recognised in profit or loss.

During the year ended 31 December 2022, the Group obtained the ownership of the leased machineries and the carrying amount of RMB66,857,000 was transferred to property, plant and equipment.

Restrictions or covenants on leases

As at 31 December 2023, lease liabilities of RMB736,325,000 are recognised with related right-of-use assets of RMB509,229,000 (2022: lease liabilities of RMB744,017,000 are recognised with related right-of-use assets of RMB622,086,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

13. INVESTMENT PROPERTIES

	RMB'000
CARRYING VALUES	
At 1 January 2022	11,272
Depreciation during the year	(1,194)
At 31 December 2022	10,078
Transfer from property, plant and equipment	113,590
Transfer from right-of-use assets	8,018
Depreciation during the year	(4,110)
At 31 December 2023	127,576

14. EQUITY INSTRUMENTS AT FVTOCI

	2023	2022
	RMB'000	*RMB'000*
Unlisted shares	**427,528**	424,798
Listed shares	**29,483**	42,259
	457,011	467,057

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

Unlisted shares

The unlisted equity investments represent the Group's equity interest in private entities. The equity instruments comprise of equity interests in companies which engaged in:

(i) producing semiconductor components in integrated circuits and development of intellectual properties;
(ii) research, development and manufacturing of sensor and semiconductor business;
(iii) solid state Light Detection And Ranging ("**LiDAR**") sensor for automotive series use; and
(iv) research, development, manufacturing and marketing of electronic equipment in the field of high-end audio.

During the year ended 31 December 2023, the Group invested in private entities engaged in producing semiconductor components in integrated circuits at the aggregate considerations of RMB18,200,000. In addition, the Group received return on capital from a private entity engaged in research, development and manufacturing of sensor and semiconductor business amounted to United States dollars ("**US$**") 2,761,000 (equivalent to approximately RMB18,666,000).

During the year ended 31 December 2022, the Group acquired certain equity interests in several private entities engaged in (i) producing semiconductor components in integrated circuits at the aggregate consideration of RMB38,500,000 and (ii) research, development, manufacturing and marketing of electronic equipment in the field of high-end audio at a consideration of Euro15,000,000 (equivalent to approximately RMB103,452,000).

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 31 December 2023, the fair value of the investment determined by reference to the quoted market bid prices available was RMB29,483,000 (2022: RMB42,259,000).

15. FINANCIAL ASSET AT FVTPL

	2023	2022
	RMB'000	*RMB'000*
Convertible loans	**43,711**	39,012
Unlisted shares/funds	**369,590**	147,291
	413,301	186,303

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;
(iv) a preferred shares investment in a private entity in automotive business; and
(v) a private entity in augmented reality displays manufacturing business.

During the year ended 31 December 2023, the Group invested in private entities engaged in (i) automotive business at a consideration of RMB100,000,000 and (ii) sensor and semiconductor business at a consideration of US$4,500,000 (equivalent to approximately RMB32,087,000).

In addition, the Group (i) made addition contribution of US$13,212,000 (equivalent to approximately RMB94,537,000) and GBP614,000 (equivalent to approximately RMB5,515,000) to the private equity funds mentioned above during the year ended 31 December 2023.

During the year ended 31 December 2022, the Group (i) made contribution of US$12,454,000 (equivalent to approximately RMB85,980,000) to Fund A, including the addition of US$419,000 (equivalent to approximately RMB2,674,000) that was called upon by the fund before the year ended 31 December 2021, (ii) subscribed a convertible loan amounted to Euro5,000,000 (equivalent to approximately RMB37,594,000) issued by a private entity in Finland, and (iii) entered into a subscription agreement with Fund B pursuant to which the Group agreed to make a capital commitment of GBP5,000,000 to Fund B and the Group made payment of GBP938,000 (equivalent to approximately RMB7,916,000).

As the convertible loan contains derivative feature for the holder to convert the outstanding amount into equity interest of the issuer, it is 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. As at 31 December 2023, the loss in fair value of the financial assets at FVTPL of RMB6,724,000 was recognised in profit or loss (2022: Nil).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		Non-current	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Derivatives financial assets				
Cross currency swap contract	**2,869**	-	**-**	-
	2,869	-	**-**	-
Derivatives financial liabilities				
Cross currency swap contract	**-**	8,326	**-**	7,706
	-	8,326	**-**	7,706

The Group entered into a cross currency swap contract with total notional amount of US$50,000,000 (2022: US$50,000,000) with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of US$ denominated unsecured notes, with details set out in note 21. 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 RMB13,688,000 for the year ended 31 December 2023 (2022: loss of RMB17,619,000) has been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB1,906,000 (2022: gain of RMB21,324,000) on cash flow hedge was reclassified to profit or loss.

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

Notional amount	Range of maturity	Forward contract rate	Interest rate Receive	Interest rate Pay	Exchange frequency Receive	Exchange frequency Pay
At 31 December 2023						
Cross currency swap contract						
US$$50,000,000	27 November 2024	US$1 to RMB6.7345	3.00%	5.38%	Semi-annually	Semi-annually
At 31 December 2022						
Cross currency swap contract						
US$50,000,000	27 November 2024	US$1 to RMB6.7345	3.00%	5.38%	Semi-annually	Semi-annually

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2023 and 2022 is Level 2 under the fair value hierarchy (details set out in note 28).

16. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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

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

17. TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**5,292,857**	4,089,490
Bank acceptance and commercial bills	**69,194**	189,168
	5,362,051	4,278,658
Prepayments	**295,336**	314,409
Value-added tax recoverable	**642,320**	666,099
Other receivables	**349,369**	263,471
Loan and interest receivables*	**4,355**	8,523
	6,653,431	5,531,160

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

As at 1 January 2022, trade receivables from contracts with customers amounted to RMB4,497,320,000.

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

	2023	2022
	RMB'000	*RMB'000*
Age		
0 - 90 days	**5,197,770**	4,098,361
91 - 180 days	**149,996**	169,795
Over 180 days	**14,285**	10,502
	5,362,051	4,278,658

17. TRADE AND OTHER RECEIVABLES - continued

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

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB52,955,000 (2022: RMB191,749,000) which are past due as at the reporting date. Included in the past due balances, RMB20,002,000 has been past due 90 days or more (2022: RMB11,126,000).

The Group's trade receivables and bank acceptance and commercial bills which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023	2022
	RMB'000	*RMB'000*
US$	**233,652**	195,325

18. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

	2023	2022
	RMB'000	*RMB'000*
Trade payables	**3,054,954**	2,131,255
Notes payables - guaranteed	**1,005,818**	1,111,657
	4,060,772	3,242,912
Payroll and welfare payables	**423,731**	444,049
Payables for acquisition of property, plant and equipment and intangible assets	**794,541**	782,206
Other payables and accruals	**540,649**	504,436
Payables related to Restricted Shares (as defined in note 26) granted to employees	**61,981**	87,116
	5,881,674	5,060,719
Less: Other payables due for settlement after 12 months shown under non-current liabilities	**(85,206)**	(101,976)
Amounts shown under current liabilities	**5,796,468**	4,958,743

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

18. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES - continued

Trade and other payables - continued

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

	2023	2022
	RMB'000	*RMB'000*
Age		
0 - 90 days	**3,366,334**	2,576,830
91 - 180 days	**674,020**	654,872
Over 180 days	**20,418**	11,210
	4,060,772	3,242,912

The Group's trade and notes payables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023	2022
	RMB'000	*RMB'000*
US$	**754,529**	645,563
Japanese Yen	**24,642**	3,037
Euro	**26,831**	19,938

Contract liabilities

	2023	2022
	RMB'000	*RMB'000*
Contract liabilities on sales of miniaturised components	**15,868**	30,435

As at 1 January 2022, contract liabilities amounted to RMB22,324,000. The contract liabilities at the beginning of the year are recognised as revenue during the year.

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

19. LEASE LIABILITIES

	2023	2022
	RMB'000	*RMB'000*
Lease liabilities payable:		
Within one year	**389,309**	292,087
Within a period of more than one year but not more than two years	**83,155**	123,251
Within a period of more than two years but not more than five years	**209,216**	191,280
Within a period of more than five years	**88,515**	170,564
	770,195	777,182
Less: Amount due for settlement with 12 months shown under current labilities	**(389,309)**	(292,087)
Amount due for settlement after 12 months shown under on-current liabilities	**380,886**	485,095

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

No extension options are included in all lease agreements entered by the Group. The weighted average incremental borrowing rates applied to lease liabilities is 4.36% (2022: 4.26%). These lease liabilities were measured at the present value of the lease payments that are not yet paid.

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

	EURO	Singapore Dollar	US$
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2023	97,989	-	2,155
As at 31 December 2022	98,922	22	-

20. BANK LOANS

	2023	2022
	RMB'000	*RMB'000*
Bank loans	**3,189,885**	3,559,803
Less: Amount due within one year included in current liabilities	**(1,463,885)**	(1,832,603)
Amount due after one year	**1,726,000**	1,727,200
The carrying amounts of the above bank loans are repayable*:		
Within one year	**1,463,885**	1,832,603
Within a period of more than one year but not exceeding two years	**1,600,000**	1,727,200
Within a period of more than two years but not exceeding five years	**126,000**	-
	3,189,885	3,559,803

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

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

	2023	2022
	RMB'000	*RMB'000*
RMB	**1,098,600**	54,000

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

	2023	2022
	RMB'000	*RMB'000*
Fixed-rate borrowings	**3,189,885**	2,969,523
Variable-rate borrowings	**-**	590,280
	3,189,885	3,559,803

As at 31 December 2022, the Group's variable loans mainly carried interest at LIBOR and other relevant interbank offered rates plus a certain basis point adjustment and these loans were fully repaid during the year ended 31 December 2023 and there was no impact from the interest rate benchmark reform. The variable rate bank loans carried interest rate ranging from 2.55% to 4.90% per annum in 31 December 2022.

The fixed rate bank loans carry interest rate ranging from 2.30% to 3.35% per annum (31 December 2022: 1.75% to 3.80% per annum). The Company issued guarantees to respective banks to secure these borrowings.

21. 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 coupon rate of 3.000% 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 3.15% per annum.

As at 31 December 2023, the principal amounts of the outstanding unsecured notes include 2024 Notes of US$276,818,000 (2022: US$276,818,000) with the carrying amount of RMB1,957,575,000 (2022: RMB1,921,798,000). The amount is repayable in 2024 and shown under current liabilities as at 31 December 2023 (2022: non-current liabilities).

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 31 December 2023, the principal amounts of the outstanding unsecured notes include 2026 Notes of US$230,154,000 (2022: US$252,604,000) with the carrying amount of RMB1,626,590,000 (2022: RMB1,753,985,000) and 2031 Notes of US$290,123,000 (2022: US$350,000,000) with the carrying amount of RMB2,035,530,000 (2022: RMB2,412,062,000). The amount is repayable in 2026 and 2031 shown under non-current liabilities as at 31 December 2023 (2022: non-current liabilities).

During the year ended 31 December 2023, the Group repurchased the 2026 Notes with the principal amount of US$22,450,000 and carrying amount of RMB159,636,000 at a consideration of US$19,464,000 (equivalent to RMB138,741,000) and 2031 Notes with the principal amount of US$59,877,000 and carrying amount of RMB422,641,000 at a consideration of US$42,801,000 (equivalent to RMB305,103,000) 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 RMB138,433,000 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.

During the year ended 31 December 2022, the Group completed the tender offer to repurchase the 2024 Notes with the principal amount of US$111,182,000 and carrying amount of RMB786,538,000, at a consideration of US$97,840,000 (equivalent to RMB694,646,000) and 2026 Notes with the principal amount of US$47,396,000 and carrying amount of RMB335,416,000, at a consideration of US$35,926,000 (equivalent to RMB255,068,000) 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 RMB168,793,000 was recognised in the profit or loss. The tender offer of its outstanding 2024 Notes and 2026 Notes was for the purpose of optimising its debt structure and proactive management of its liabilities. Further details of the tender offer to repurchase the unsecured notes were set out in the Company's announcements dated 28 September 2022.

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

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

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

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

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

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

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

According to the share transfer agreement dated 10 May 2022, AAC HK agreed to purchase 48,289,693 shares of 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 is 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 provisions amounted to RMB147,789,000, which represents 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 provisions derecognised and the consideration paid amounting to RMB17,789,000 was credited directly in equity and attributed to owners of the Company in 2022.

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 proposed spin-off and separate listing. The Company considered that the proposed spin-off and separate listing, if it proceeds, will be commercially beneficial to the Company and AAC Optics, and the Company intends to continue to pursue the proposed spin-off and separate listing when, amongst others, market conditions improve.

According to the Company's announcement dated 15 September 2023, AAC TIC, an indirectly wholly owned subsidiary of the Company, AAC Optics and certain Second Round Strategic Investors ("**2023 Selling Investors**") entered into separate share transfer agreements, and the 2023 Selling Investors agreed to sell their entire equity interest in AAC Optics to AAC TIC. The 2023 Selling Investors in aggregate held approximately 7.1670% of the equity interest in AAC Optics, and the aggregate consideration under the share transfer agreements was approximately RMB1,448,990,000. Completion under each of the share transfer agreements was take place immediately upon AAC TIC having paid the consideration in full in September 2023 to each of the 2023 Selling Investors pursuant to the share transfer agreements. As a result of these transactions, the contingent settlement provision amounted to RMB1,448,990,000, which represents the considerations paid by AAC TIC, were derecognised. The amount by which the non-controlling interests are adjusted, amounting to RMB141,868,000, was credited directly in equity and attributed to owners of the Company in 2023.

After completion of the share transfer agreements, AAC Optics is held (i) as to approximately 88.2620% indirectly by the Company; (ii) 2% by the share incentive platforms of AAC Optics, of which 0.1649% of the shares are vested but still held under the platforms; and (iii) approximately 9.7380% by the 5 remaining strategic investors in aggregate.

23. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB22,437,000 (2022: RMB172,408,000) in aggregate from various PRC government authorities as an incentive for leasing factories, constructing electronic plants and acquiring machineries. As the grants related to assets, the amount received is to be amortised and released to profit or loss on a systematic basis over the useful lives of the related assets.

During the year, RMB213,023,000 (2022: RMB235,550,000) of the grants have been released to profit or loss.

24. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2023	2022
	RMB'000	*RMB'000*
Deferred tax assets	**204,242**	228,401
Deferred tax liabilities	**(47,108)**	(42,847)
	157,134	185,554

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

Deferred tax assets/liabilities

	Tax losses	Inventories	Government grants	Right-of-use assets	Lease liabilities	Depreciation/ amortisation	Others	Total
	RMB'000	*RMB'000* (Note a)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Note b)	*RMB'000*	*RMB'000*
At 1 January 2022 (audited)	99,301	38,717	71,312	-	-	(40,735)	1,715	170,310
Adjustments (note 2)	-	-	-	(97,269)	97,624	-	(355)	-
At 1 January 2022 (restated)	99,301	38,717	71,312	(97,269)	97,624	(40,735)	1,360	170,310
Credit (charge) to profit or loss	12,969	(1,022)	6,077	16,090	(16,132)	(1,160)	(939)	15,883
Acquisition of subsidiary	-	-	-	-	-	-	232	232
Currency realignment	-	81	-	-	-	(952)	-	(871)
At 31 December 2022 (restated)	112,270	37,776	77,389	(81,179)	81,492	(42,847)	653	185,554
Credit (charge) to profit or loss	22,438	(13,984)	(32,159)	4,256	(4,384)	(3,713)	(350)	(27,896)
Currency realignment	-	24	-	-	-	(548)	-	(524)
At 31 December 2023	134,708	23,816	45,230	(76,923)	77,108	(47,108)	303	157,134

Notes:

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

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

24. DEFERRED TAX ASSETS/LIABILITIES - continued

At the end of the reporting period, the Group has unused tax losses of approximately RMB8,282,264,000 (2022: RMB5,842,781,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB651,313,000 (2022: RMB636,663,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB7,630,951,000 (2022: RMB5,206,118,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for up to 5 or 10 years to various years up to 2033 (2022: year 2032) from the year when the losses are incurred.

At 31 December 2023 and 2022, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the management to retain the earnings within these subsidiaries.

25. SHARE CAPITAL

	Number of shares	Amount *US$'000*
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2022, 31 December 2022 and 31 December 2023	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2022	1,208,500,000	12,085
Shares repurchased and cancelled	(5,250,000)	(52)
Ordinary shares at 31 December 2022	1,203,250,000	12,033
Shares repurchased and cancelled	(4,750,000)	(48)
Ordinary shares at 31 December 2023	1,198,500,000	11,985

	RMB'000
At 1 January 2022	98,135
Shares repurchased and cancelled	(427)
At 31 December 2022	97,708
Shares repurchased and cancelled	(387)
At 31 December 2023	97,321

25. SHARE CAPITAL – continued

During the year ended 31 December 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 year ended 31 December 2022, 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*
September	3,750,000	12.72	11.90	46,544
December	3,705,500	17.90	16.76	64,316
Total	7,455,500			110,860

During the year ended 31 December 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). During the year ended 31 December 2023, 2,544,500 ordinary shares repurchased in current year and 2,205,500 ordinary shares repurchased in December 2022 were cancelled.

During the year ended 31 December 2022, the Company repurchased a total of 7,455,500 issued ordinary shares of the Company in the market for a consideration of HK$110,860,000 (equivalent to approximately RMB100,052,000) and the consideration for share repurchased in December 2022 amounting to RMB34,604,000 was included in other payables. Out of these repurchased shares, 5,250,000 ordinary shares were cancelled during the year ended 31 December 2022.

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

26. 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 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 Trustee of the trusts declared in the Trust Deed.

26. SHARE AWARD SCHEME - continued

Share award scheme of the Company - continued

2016 share award scheme of the Company - continued

On the grant of the share awards, the relevant number of shares may be legally issued or transferred to the Trustee who holds the shares for the benefit of the selected employees. A grantee shall not have any interest or rights (including the right to receive dividends) in the shares prior to the vesting of the shares.

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

On 24 March 2022, the Company granted a total of 10,230,593 shares ("**Awarded 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 of up to three years from the date of grant subject to the relevant key performance targets.

During the year ended 31 December 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 approximately RMB154,042,000) on Hong Kong Stock Exchange for the purpose of the 2016 Scheme (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 approximately RMB62,477,000)).

As at 31 December 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, in which 158,444 Awarded Shares are vested during the current year (2022: Nil) and were still held under the 2016 Trust. Since the date of adoption of the 2016 Scheme up to 31 December 2023, no new shares had been issued to the 2016 Trustee.

Movement of the shares vested and granted to selected employee(s) under the 2016 Scheme during the year ended 31 December 2023 and 2022 are as follows:

For the year ended 31 December 2023

		Number of shares			
Date of grant	**Vesting period**	**At 1 January 2023**	**Vested on 24 March 2023**	**Shares entitlement forfeited**	**At 31 December 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**	**-**	**(403,017)**	**2,790,916**
24 March 2022	**24 March 2022 to 24 March 2025**	**3,203,524**	**-**	**(404,228)**	**2,799,296**
		9,591,390	**(2,722,799)**	**(1,278,379)**	**5,590,212**

26. SHARE AWARD SCHEME - continued

Share award scheme of the Company – continued

2016 share award scheme of the Company - continued

For the year ended 31 December 2022

		Number of shares			
Date of grant	Vesting period	At 1 January 2022	Granted on 24 March 2022	Shares entitlement forfeited	At 31 December 2022
24 March 2022	24 March 2022 to 24 March 2023	-	3,406,787	(212,854)	3,193,933
24 March 2022	24 March 2022 to 24 March 2024	-	3,406,787	(212,854)	3,193,933
24 March 2022	24 March 2022 to 24 March 2025	-	3,417,019	(213,495)	3,203,524
		-	10,230,593	(639,203)	9,591,390

The terms and conditions of the grants are as follows:

	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

Movements of Awarded Share purchased are as follows:

	Number of shares purchased	Cost of purchase *RMB'000*
At 1 January 2022	6,042,500	211,211
Shares purchased from the market during the year	4,188,500	62,477
At 31 December 2022	10,231,000	273,688
Shares purchased from the market during the year	9,544,000	154,042
Awarded Shares vested	(2,722,799)	(77,894)
Awarded Shares vested and held by the 2016 Trustee	158,444	4,533
At 31 December 2023	17,210,645	354,369

During the year ended 31 December 2023, the Group recognised total expenses of RMB32,021,000 (2022: RMB68,651,000) in relation to the Scheme shares granted by the Company.

26. SHARE AWARD SCHEME - continued

Share award scheme of the Company - continued

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 may be 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-based payments reserve.

During the year ended 31 December 2023, the 2023 Trustee purchased an aggregate of 9,119,000 shares at prices ranging from HK$13.2 to HK$17.5 per share at a total consideration of HK$142,743,000 (equivalent to approximately RMB127,050,000) on the Hong Kong Stock Exchange for the purpose of the 2023 Scheme.

As at 31 December 2023, an aggregate of 9,119,000 shares of the Company had been purchased and held by 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 year ended 31 December 2023, the net cash payment to the Eligible Scheme Participants under the Subsidiary Scheme is RMB25,032,000 (2022: RMB4,025,000).

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 year subject to the relevant key performance targets of AAC Optics during the vesting period ("**Restricted Shares**"). Upon the issue of new shares that are vested under the Subsidiary Scheme, the Group's interest in AAC Optics has been changed. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity (retained profits) and attributed to owners of the Company.

26. SHARE AWARD SCHEME - continued

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

During the year ended 31 December 2022, the Group repurchased of 21,571,493 Restricted Shares at the subscription price of RMB1 per share of AAC Optics from and further grant of 12,524,147 Restricted Shares at the subscription price of RMB1 per share of AAC Optics to the Eligible Scheme Participants. The shares would be 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 year ended 31 December 2023, the Group repurchased of 72,407,113 Restricted Shares, out of which 15,929,000 Restricted Shares amounted to RMB15,929,000 remain unpaid and is recorded as other payables, at the subscription price of RMB1 per share of AAC Optics and further grant 3,292,326 Restricted Shares at the subscription price of RMB1 per share of AAC Optics to the Eligible Scheme Participants. The granted shares would be vested over a requisite service period from the date of grant in 2023 to the end of 2026 subject to the relevant key performance targets of AAC Optics during the vesting period.

As at 31 December 2023, the net cash proceed of unvested portion of Restricted Shares, amounting to RMB46,052,000, is recorded as other payables as the shares are contingently returnable (31 December 2022: RMB87,116,000). In addition, as at 31 December 2023, for the consideration of repurchased share amounted to RMB15,929,000 is not yet repaid and is recorded as other payables.

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	124,214,061	208,957
Granted during the year	12,524,147	20,856
Repurchased during the year	(21,571,493)	(35,922)
Unvested as at 31 December 2022	115,166,715	193,891
Granted during the year	3,292,326	5,543
Repurchased during the year	(72,407,113)	(121,902)
Unvested as at 31 December 2023	46,051,928	77,532

As of 31 December 2023, there are 78,162,133 Restricted Shares arising from the repurchased during the year (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 year ended 31 December 2023, the subsidiary reversed share-based payment expense of RMB19,490,000 (2022: recognised shared-based payment expense of RMB53,828,000) in relation to the shares granted by the subsidiary under Subsidiary Scheme and the amount is debited (2022: credited) to the non-controlling interests in the Group.

26. SHARE AWARD SCHEME - continued

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

In the opinion of the Directors of the Company, the fair value of Restricted Shares granted during the year was based on discount cash flow (2022: based on the consideration of the latest transaction price of AAC Optics in 2022). At the end of each reporting period, the Group revises its estimates of the Restricted Shares that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to share-based payments reserve including in the non-controlling interests.

27. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

The properties held for rental purposes have committed lessees for the next 15 years (2022: 1 year).

Undiscounted lease payments receivable on leases are as follows:

	2023	2022
	RMB'000	*RMB'000*
Within one year	**13,959**	6,380
In the second year	**15,216**	-
In the third year	**18,285**	-
In the fourth year	**18,822**	-
In the five year	**19,150**	-
After five years	**85,562**	-
	170,994	6,380

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The Directors of the Company have set up an investment committee, which is headed up by the Chief Innovation Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

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.

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

(i) 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/ liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input (s)**	**Significant unobservable input(s)**	**Sensitivity/relationship of unobservable inputs to fair value**
	2023	2022				
	RMB'000	*RMB'000*				
Equity instruments at FVTOCI - Listed shares	**29,483**	42,259	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI - Unlisted equity investments	**75,477**	46,342	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.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model. Forecasted future cash flows	The higher the discount rate, the lower the fair value, and vice versa. The higher the forecast future cash flow, the higher the fair value, and vice versa.
Equity instruments at FVTOCI - Unlisted equity investments	**318,829**	233,115	Level 3	Market approach. The market approach was used to determine the valuation based on the recent transaction prices of underlying investments or using trailing-twelve-month ("TTM") Price-to-Sales ("P/S") multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount. TTM P/S multiples of selected comparable companies.	The higher the lack of marketability discount, the lower the fair value. The higher the TTM P/S multiples, the higher the fair value.
Equity instruments at FVTOCI - Unlisted equity investments	**33,222**	145,341	Level 3	Recent transaction prices of underlying investments.	N/A	N/A
Total equity instruments for FVTOCI	**457,011**	467,057				

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

(i) 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 2023 *RMB'000*	Fair value as at 2022 *RMB'000*	Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input(s)	Sensitivity/relationship of unobservable inputs to fair value
Financial assets at FVTPL	**21,248**	-	Level 3	Recent transaction prices of underlying investments	N/A	N/A
Financial assets at FVTPL	**348,342**	112,468	Level 3	Market approach. The market approach was used to determine the valuation based on the recent transaction prices of underlying investments or using TTM P/S multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount. TTM P/S multiples of selected comparable companies.	The higher the lack of marketability discount, the lower the fair value. The higher the TTM P/S multiples, the higher the fair value.
Financial assets at FVTPL	**-**	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.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model. Forecasted future cash flows.	The higher the discount rate, the lower the fair value, and vice versa. The higher the forecast future cash flow, the higher the fair value, and vice versa.
Financial assets at FVTPL	**43,711**	39,012	Level 3	Binomial Option Pricing Model	Volatility	The higher the volatility, the higher the fair value, and vice versa
Total financial assets at FVTPL	**413,301**	186,303				
Cross currency swap contract	**2,869** **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.	N/A	N/A
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.	N/A	N/A

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

(ii) Reconciliation of level 3 fair value measurements

	Equity instruments at FVTOCI *RMB'000*	Financial assets at FVTPL *RMB'000*
At 1 January 2022	787,079	-
Transfer from level 2 to level 3	13,474	50,349
Purchase made	141,952	128,816
Total losses:		
- in other comprehensive income	(569,851)	-
Currency realignment	52,144	7,138
At 31 December 2022	424,798	186,303
Capital return	(18,666)	-
Purchase made	18,200	232,139
Total gains (losses):		
- in other comprehensive income	1,033	-
- in profit and loss	-	(6,724)
Currency realignment	2,163	1,583
At 31 December 2023	427,528	413,301

Of the total gains or losses for the period included in profit or loss, RMB6,724,000 (2022: Nil) relates to financial assets at FVTPL at the end of the current reporting period. Fair value loss on financial assets at FVTPL are included in "other gains and losses".

Included in other comprehensive income is an amount of RMB1,033,000 gain (2022: RMB569,851,000 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.

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

Except for listed unsecured notes in which there is fair value based on the quoted bid price in an active market, amounting to RMB4,889,467,000 (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 consolidated financial statements approximate their fair values.

29. EVENT 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**") and its subsidiaries (collectively referred to as the "**Target Group**") 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 (the "**First Tranche Transaction**") 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 earnings before interest, taxes, depreciation and amortisation (the "**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. As at 31 December 2023, an escrow deposit of US$40,000,000 (equivalent to approximately RMB283,308,000) is placed into a third party account. The difference of the estimated consideration payable for the acquisition and the escrow deposit paid amounted to RMB3,058,143,000 are disclosed as the capital commitment.

As announced by the Company on 9 February 2024, the First Tranche Transaction is completed on 9 February 2024 and after considering the terms under the agreement for the sale and purchase dated 10 August 2023 and shareholders' agreement dated 10 August 2023, upon the completion of the First Tranche Transaction, the Directors of the Company considered that the Group has effectively acquired 100% interest in the Target Group with the Second Tranche Consideration as deferred consideration.

The Directors expect the acquisition would have a positive impact on the Group's revenue and earnings following the completion of the acquisition. However, the financial impact of the acquisition would depend on the future performance of the Target, and the actual financial position and performance of the Target as of the date of completion and hence, the estimate of the financial impact could not be made as of the date of approval of these consolidated financial statements.

The financial information of the Target Group and further details of the information related to the major transaction , including the background information of the Target Group and the terms of the sales and purchase agreement, are disclosed in the Company's announcements dated 10 August 2023, 30 November 2023, and 9 February 2024, and the Company's circular dated 17 January 2024.

CORPORATE GOVERNANCE

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of our stakeholders, but also a key component in the Group's sustainable long term development and value creation. Our Board, which is at the centre of our corporate governance structure, has regularly reviewed and refined principles, policies and practices on the conduct with an aim to support the growth of the Group's operations. Our sound corporate governance structure includes a quality Board, high standards of corporate responsibility and sustainability awareness, a high degree of transparency, accountability and independence, and an effective design, implementation and enforcement of risk management as well as internal control systems. Based on regular reviews of the Company's actual performance against the Corporate Governance Code (the "**CG Code**") in Appendix C1 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Hong Kong Listing Rules**"), the Board is satisfied that throughout the financial year ended 31 December 2023, the Company has complied with all the code provision(s).

In addition, the Board in 2023 reviewed the Company's policies and practices on corporate governance, the terms of reference of the Board and committees of the Board, and published its Sustainability Report for the year ended 31 December 2022 in April 2023. We believe that the Sustainability Report, together with the Corporate Governance Report, will help to better explain our environmental, social and governance ("**ESG**") strategies, policies and practices.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Audit and Risk Committee reviewed accounting principles, practices and important issues of judgment and estimation adopted by the Group in preparing the financial statements for the year ended 31 December 2023. The Audit and Risk Committee met two times during the year in advance of Board meetings that considered the interim and final results and the related announcements. To reinforce the Company's ERM focus, high-risk areas (if any) identified in the external auditor's planning memorandum were discussed and special internal audit procedures were agreed where deemed appropriate. Two meetings with the external auditors were held during 2023. Audit and Risk Committee meetings are by design held a few working days ahead of full Board meetings to ensure that management will have enough time to answer any important queries raised for further discussion and reporting at ensuing Board meetings. Audit and Risk Committee Chairman reports significant issues covered at Audit and Risk Committee meetings to the full Board. Based on the work of the Audit and Risk Committee and further deliberations at Board meetings, the Board acknowledged and discharged their responsibilities for the preparation of the Group's financial statements for the year ended 31 December 2023.

Executive management owns the risk management and internal control processes and practices and has confirmed to the Board that these were operating adequately and effectively throughout the 2023 financial year. The audit and risk management department carries out independent analyses and appraisals of the adequacy and effectiveness of prescribed risk management and internal controls. The Audit and Risk Committee receives regular updates on risk management and internal audit reports from management and internal audit, in addition to key updates on business operations, financial results and strategic matters that are provided to the Board on a timely basis.

The Board and management recognize that ERM will need ongoing refinement and reinforcement in terms of risk-culture, risk appetite and risk management practices before it becomes effectively embedded in business decisions, whether strategic or operational.

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

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

SUSTAINABILITY

Sustainability efforts continue to progress amid a year of challenges and opportunities. Strengthening business resilience and agility is the Group’s sustained growth priority.

Measured by innovation indicators, the Group has been selected by a leading international intellectual property company in its "Top 100 Global Innovators of 2023". Thriving through technological innovation, the Group cultivates long-term positive customer relationships. This year, the Group received various awards from its business partners for the successful delivery solutions and a prestigious design award for its car seat vibration and haptic technology. The Group continues to collaborate with global technology partners to catalyse relentless innovation and technological advancement.

The Group improves operational efficiency by expediting digitalization, automation and operations optimization. For example, various large-scale renewable energy projects were implemented. A large-scale solar photovoltaic power system commenced operation in one of the Group's production bases in 2023 generating over 33.4 million kWh of renewable, reaching over 66% increase compared to 2022. A smaller scale new factory has achieved over 10% utilization of renewable energy.

The full 2023 Sustainability Report covering operational, talent management, environmental impacts, community and other sustainability governance topics will be made available along with the publication of the annual report in April 2024 on the Company’s website at www.aactechnologies.com.

The Sustainability Working Group ("**SWG**"), headed by a member of the Board includes senior management and executives from various departments, convenes regularly to oversee the review of the Group's sustainability strategies and key concerns, handles associated risks and opportunities and elevates the efficiency of ongoing initiatives. The SWG will proactively review and update identified material ESG topics and their materiality, performance and targets to ensure they align with the Group's long-term business targets and global ESG laws, regulations and recommendations.

As in previous years, the Group's sustainability-related performance and disclosures have been recognized by various global ESG professional awards organisations. The Group is committed to enhance communications and disclosures on improving such ratings.

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 the Employees (other than the 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 the Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. Subject to any early termination as may be determined by the Board pursuant to the scheme rules of the 2016 Share Award Scheme (the "**2016 Scheme Rules**"), the 2016 Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on 23 March 2016.

In this section, Employee(s) refers to any employee (including without limitation any executive Director but excluding any non-executive Director or independent non-executive Director) of any member of the Group; Excluded Employee(s) refers to any Employee who is resident in a place where the award of the awarded Shares and/or the vesting and transfer of the awarded Shares pursuant to the terms of the 2016 Share Award Scheme is not permitted under the laws or regulations of such place or where in the view of the Board or Bank of Communications Trustee Limited (the "**2016 Scheme Trustee**") (as the case may be), compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Employee; Selected Employee(s) refers to Employee(s) selected by the Board pursuant to the 2016 Scheme Rules for participation in the 2016 Share Award Scheme.

Subject to the provisions of the 2016 Scheme Rules, the Board may, from time to time, exercise its absolute discretion in selecting any Employee (other than any Excluded Employee) for participation in the 2016 Share Award Scheme as a Selected Employee, and grant such number of Awarded Shares to any Selected Employee at no consideration. The 2016 Scheme Rules do not provide for any amount which will be payable on acceptance of the award or period within which payments must be made.

The maximum number of shares of the Company (the "**Share(s)**") 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 21 March 2024) 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 under the 2016 Share Award Scheme during its term shall not exceed 0.5% (i.e. 5,992,500 Shares as at 21 March 2024) 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 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 31 December 2023, no new Shares have been issued to the 2016 Scheme Trustee pursuant to the 2016 Scheme Rules and trust deed of the 2016 Share Award Scheme. In January, March 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. The total number of Shares available for issue to, or purchase by, the 2016 Scheme Trustee under the 2016 Share Award Scheme are 250 Shares, representing approximately 0.00002% of the issued share capital of the Company as at 21 March 2024.

Since the date of adoption of the 2016 Share Award Scheme and up to 31 December 2023, a total of 10,230,593 awarded Shares were granted to 340 employees at nil consideration, in which 2,722,799 and 2,635,440 awarded Shares had been vested to employees on 24 March 2023 and 24 March 2024, respectively. 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).

No awarded Shares were granted under the 2016 Share Award Scheme during the year ended 31 December 2023. The number of Shares that may be issued in respect of the awarded Shares granted under the 2016 Share Award Scheme during the year ended 31 December 2023 divided by the weighted average number of Shares in issue for the year ended 31 December 2023 was nil.

As at 31 December 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 11,462,239 Shares.

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 the Employees (other than the 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. Subject to any early termination as may be determined by the Board pursuant to the scheme rules of the 2023 Share Award Scheme (the "**2023 Scheme Rules**"), the 2023 Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on 17 April 2023.

In this section, Employee(s) refers to any employee (including without limitation any executive Director but excluding any non-executive Director or independent non-executive Director) of any member of the Group; Excluded Employee(s) refers to any Employee who is resident in a place where the award of the awarded Shares and/or the vesting and transfer of the awarded Shares pursuant to the terms of the 2023 Share Award Scheme is not permitted under the laws or regulations of such place or where in the view of the Board or BOCI Trustee (Hong Kong) Limited (the "**2023 Scheme Trustee**") (as the case may be), compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Employee; Selected Employee(s) refers to Employee(s) selected by the Board pursuant to the 2023 Scheme Rules for participation in the 2023 Share Award Scheme.

Subject to the provisions of the 2023 Scheme Rules, the Board may, from time to time, exercise its absolute discretion in selecting any Employee (other than any Excluded Employee) for participation in the 2023 Share Award Scheme as a Selected Employee, and grant such number of awarded Shares to any Selected Employee at no consideration. The 2023 Scheme Rules do not provide for any amount which will be payable on acceptance of the award or period within which payments must be made.

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 21 March 2024. The maximum number of awarded Shares that may be granted to any one Selected Employee under the 2023 Share Award Scheme during its term shall not exceed 0.5% (i.e. 5,992,500 Shares as at 21 March 2024) of the issued share capital of the Company from time to time. Pursuant to the 2023 Share Award Scheme, Shares will be purchased on the Hong Kong Stock Exchange, by 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, May, September and October 2023, the 2023 Scheme Trustee purchased 600,000, 5,352,500, 3,100,000 and 66,500 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 31 December 2023, the 2023 Scheme Trustee held a total of 9,119,000 Shares under the 2023 Share Award Scheme.

Since the date of adoption of the 2023 Share Award Scheme and up to 31 December 2023, no Shares had been granted to Selected Employee(s) under the 2023 Share Award Scheme.

Subsidiary Share Incentive Scheme

In addition to the above Share Award Schemes, 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 26 to the 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.

At the annual general meeting (the **"AGM"**) on 11 May 2023, the Company's shareholders granted a general mandate to the Directors of the Company to repurchase Shares of the Company (the "**Repurchase Mandate**"). Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 10% of the total number of issued Shares of the Company as at the date of the AGM.

During the year ended 31 December 2023, the Company had repurchased, under the Repurchase Mandate, a total of 2,544,500 Shares, representing approximately 0.21% of the issued 1,198,500,000 Shares as at 31 December 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:

		Purchase price paid per Share		
Month	**Total number of the Shares repurchased each month**	**Highest** ***(HK$)***	**Lowest** ***(HK$)***	**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

The Company issued: (i) US$388,000,000 3.00 per cent. notes due 2024 (2024 Notes, stock code: 40075) in 2019; (ii) US$300,000,000 2.625 per cent. notes due 2026 (2026 Notes, stock code: 40699) in 2021; and (iii) US$350,000,000 3.750 per cent. notes due 2031 (2031 Notes, stock code: 40700) in 2021, to professional investors. As at 1 January 2023, the outstanding aggregate principal amounts of the 2024 Notes, the 2026 Notes and the 2031 Notes 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$1,623,000 paid by the Company; 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$33,914,000 paid by the Company; in September 2023, the Company had purchased from open market US$9,350,000 of the 2026 Notes and US$22,950,000 of the 2031 Notes, with aggregate amount of US$24,317,000 paid by the Company; and in October 2023, the Company had purchased from open market US$1,100,000 of the 2026 Notes and US$2,000,000 of the 2031 Notes, with aggregate amount of US$2,411,000 paid by the Company, thereby reducing the outstanding aggregate principal amounts of the 2026 Notes and the 2031 Notes to US$230,154,000 and US$290,123,000, respectively.

Save as disclosed above, during the year ended 31 December 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 31 December 2023, the Group employed 29,922 permanent employees, an 8% increase from 27,798 employees as at 31 December 2022. The increase in total workforce was the result of the expansion of precision mechanics product line in Mainland China, as well as the commencement of operations of a new production facility in Vietnam. The Group's human capital efficiency continued to improve with advanced production methodologies and automation that allowed reduction in employee numbers in other product lines as well as functional departments.

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 its various R&D centers worldwide.

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 C3 to the Hong Kong Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31 December 2023.

CLOSURES OF REGISTER OF MEMBERS

i. For attending and voting at the annual general meeting

The registers of members of the Company will be closed from Monday, 20 May 2024 to Thursday, 23 May 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting, all transfer of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 May 2024.

ii. For entitlement of proposed final dividend

The registers of members of the Company will be closed from Wednesday, 29 May 2024 to Friday, 31 May 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 28 May 2024.

DESPATCH OF ANNUAL REPORT

The Company's annual report containing the Directors' report and consolidated financial statements for the year ended 31 December 2023 will be published on the Company's website at www.aactechnologies.com and the website of the Hong Kong Stock Exchange in April 2024.

The annual report and the notice of annual general meeting will also be dispatched to Shareholders in April 2024.

IMPORTANT NOTE

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

Potential investors and Shareholders of the Company are advised to exercise caution when dealing in the Shares of the Company.

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

Hong Kong, 21 March 2024

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.