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

Annual Report 2020

AAC Technologies Holdings Inc. is the world's leading solutions provider for smart devices with cutting-edge technologies in materials research, simulation, algorithms, design, automation and process development in Acoustics, Optics, Electromagnetic Drives and Precision Mechanics, MEMS, Radio Frequency and Antenna, providing advanced miniaturized and proprietary technology solutions. Our goal is to "Lead Innovation & Enhance User Experience". In delivering high-performance and superior quality products, the Group will continue to create value for customers with innovative user experience.

www.aactechnologies.com

Contents

The Company has since 2013 issued a stand-alone Sustainability Report every year. The annual Sustainability Report discloses the details of sustainability performance, initiatives and its progress on environmental, social and governance issues for the year. Please visit the website www.aactechnologies.com to download the reports.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Pan Benjamin Zhengmin (Chief Executive Officer)
Mr. Mok Joe Kuen Richard

Independent Non-executive Directors

Mr. Zhang Hongjiang (Chairman of the Board)
Mr. Au Siu Cheung Albert
Mr. Peng Zhiyuan
Mr. Kwok Lam Kwong Larry
Mr. Koh Boon Hwee (Retired on 15 May 2020)
Mr. Poon Chung Yin Joseph (Retired on 15 May 2020)

Non-executive Director

Ms. Wu Ingrid Chun Yuan

AUDIT AND RISK COMMITTEE

Mr. Au Siu Cheung Albert (Chairman)
Mr. Peng Zhiyuan
Mr. Kwok Lam Kwong Larry
Mr. Poon Chung Yin Joseph (Retired on 15 May 2020)

NOMINATION COMMITTEE

Mr. Zhang Hongjiang (Chairman)
Mr. Peng Zhiyuan
Mr. Kwok Lam Kwong Larry

REMUNERATION COMMITTEE

Mr. Peng Zhiyuan (Chairman)
Mr. Zhang Hongjiang
Mr. Au Siu Cheung Albert
Mr. Poon Chung Yin Joseph (Retired on 15 May 2020)

AUTHORIZED REPRESENTATIVES

Mr. Pan Benjamin Zhengmin
Mr. Mok Joe Kuen Richard

COMPANY SECRETARY

Mr. Ho Siu Tak Jonathan (Appointed on 25 March 2020)
Mr. Lo Tai On (Resigned on 25 March 2020)

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Baker & McKenzie
JunHe
Woo, Kwan, Lee & Lo

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1605–7, China Evergrande Centre
38 Gloucester Road, Wanchai, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman, KY1–1111
Cayman Islands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
Boundary Hall, Cricket Square
P.O. Box 1093, Grand Cayman, KY1–1102
Cayman Islands

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of Communications
DBS Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Ping An Bank

STOCK CODE

2018

WEBSITE

www.aactechnologies.com

FINANCIAL YEAR END

31 December

Core Development Strategies

AAC Technologies is

offering advanced solutions enabled by its cutting-edge and proprietary technologies to the global electronics industry in the consumer and industrial markets

"AAC Technologies is determined to drive growth through innovation and enhance its R&D as well as high-precision manufacturing capabilities, so as to provide the best products and solutions meeting future market demands. The core competencies of the Group include simulations, innovative research and design as well as vertically integrated smart manufacturing, complemented by efficient management, proven operational systems and its tireless effort in nurturing talents."

Core Development Strategies

STRATEGY

The Group always aims to "lead innovation and enhance user experience". Focusing on high-tech entry barrier and high value-added precision manufacturing business, and establishing the leading edge in each segment, we achieve sustainable development capability.

"Two-pronged" approach: Advanced R&D + Precision Manufacturing

Holistic Solution Platform

Core Development Strategies

Optics

Acoustics

Electromagnetic Drives/
Precision Mechanics

MEMS

CONTINUE TO CONDUCT R&D ON CORE TECHNOLOGIES FOR MAINTAINING THE LEADING POSITION IN THE GLOBAL TECHNOLOGY MARKET:

Since inception, the Group has identified technology-leader as its competitive strategy. With investment in R&D accounting for 11.2% of revenue, the Group has set up 19 R&D centers all over the world, with 4,335 R&D talents, and, by 31 December 2020, obtained 6,034 patents, as well as 6,287 patent applications.

CONTINUOUSLY DEVELOP ULTRA-PRECISION PRODUCTION TECHNIQUES AND ENHANCE PER CAPITA OUTPUT:

The Group has implemented an integrated process of R&D and manufacturing with independent R&D initiatives, self-developed equipment and automated production lines. Per capita output has continuously improved by self-developed production techniques, enhanced production yield and our global presence. Our target is to achieve the per capita output level of developed countries.

ESTABLISH A VERSATILE TECHNOLOGY PLATFORM TO ACHIEVE EFFICIENT USE AND GREATER INTEGRATION OF R&D RESOURCES:

Our versatile technology platforms enable the Group to invest in specific R&D of these segments: optics, WLG hybrid lens, acoustics, haptics, precision mechanics and MEMS, to maintain technology leader status and innovative capabilities.

ESTABLISH A VERSATILE EQUIPMENT PLATFORM TO ENHANCE LEVEL OF STANDARDIZATION AND DIGITALIZATION:

Our self-developed production equipment has been designed with capability for continuous upgrade and further improvement. Hence, our production lines can be modified flexibly for supporting new requirements of the four business segments. We ensure quick response to new requirements of production process for new products, and new techniques can be implemented. Such enhanced versatility of equipment will significantly reduce investment costs of specific production lines of specific segments.

Financial Highlights

Revenue
(RMB million)

17,140

-4.2% YoY

EBITDA
(RMB million)

4,478

-10.0% YoY

Earnings Per Share
(RMB)

1.25

-32.1% YoY

Free Cash Flow
(RMB million)

(1,400)

-265.4% YoY

CAPEX/EBITDA

113.6%

+52.7ppts YoY

Per Capita Output
(RMB)

508,084

+11.9% YoY

Net Asset
(RMB million)

21,821

+12.7% YoY

Net Gearing Ratio

2.2%

-8.3ppts YoY

ROE

7.4%

-4.2ppts YoY

Financial Highlights

Summary of Past 5-Year Operating Financial Data

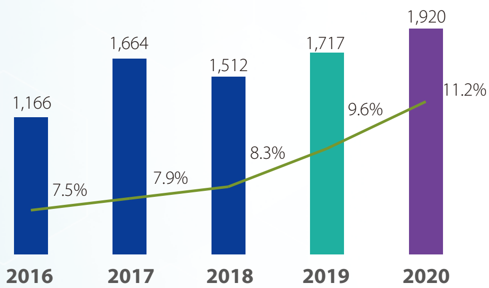
	Year ended 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**	2020 vs 2019 YoY Increase /(Decrease)
Revenue	15,506,828	21,118,566	18,131,153	17,883,757	**17,140,219**	(4.2%)
Depreciation and Amortisation	968,905	1,316,046	1,763,627	2,176,306	**2,477,529**	13.8%
Finance costs	66,812	164,711	217,888	248,210	**352,558**	42.0%
Net profit attributable to owners of the Company	4,025,665	5,324,579	3,795,885	2,222,375	**1,506,707**	(32.2%)
EBITDA	5,668,707	7,477,054	6,291,817	4,976,938	**4,477,686**	(10.0%)
CAPEX	(4,137,632)	(5,286,186)	(3,903,282)	(3,032,874)	**(5,087,990)**	67.8%
Taxation paid	(453,024)	(696,234)	(676,286)	(370,068)	**(261,953)**	(29.2%)
Changes in working capital	(286,125)	(1,601,984)	1,149,187	(727,941)	**(527,278)**	27.6%
Free cash flow	791,926	(107,350)	2,861,436	846,055	**(1,399,535)**	
Gross margin	41.5%	41.3%	37.2%	28.6%	**24.7%**	(3.9ppts)
R&D expenses to Revenue	7.5%	7.9%	8.3%	9.6%	**11.2%**	1.6ppts
ROA	19.8%	19.4%	12.5%	6.9%	**4.1%**	(2.8ppts)
ROE	31.6%	33.6%	20.8%	11.6%	**7.4%**	(4.2ppts)
Per capita output (Revenue/Employees)	334	405	504	454	**508**	11.9%
Net gearing ratio	0.9%	7.3%	6.2%	10.5%	**2.2%**	(8.3ppts)
Current ratio	1.41	1.32	1.44	1.92	**1.80**	(12.0ppts)
CAPEX/EBITDA	73.0%	70.7%	62.0%	60.9%	**113.6%**	52.7ppts

Global Presence

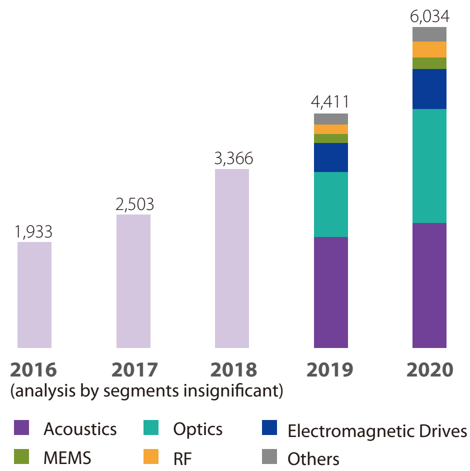
R&D

R&D Expenses and R&D Expenses/Revenue Ratio

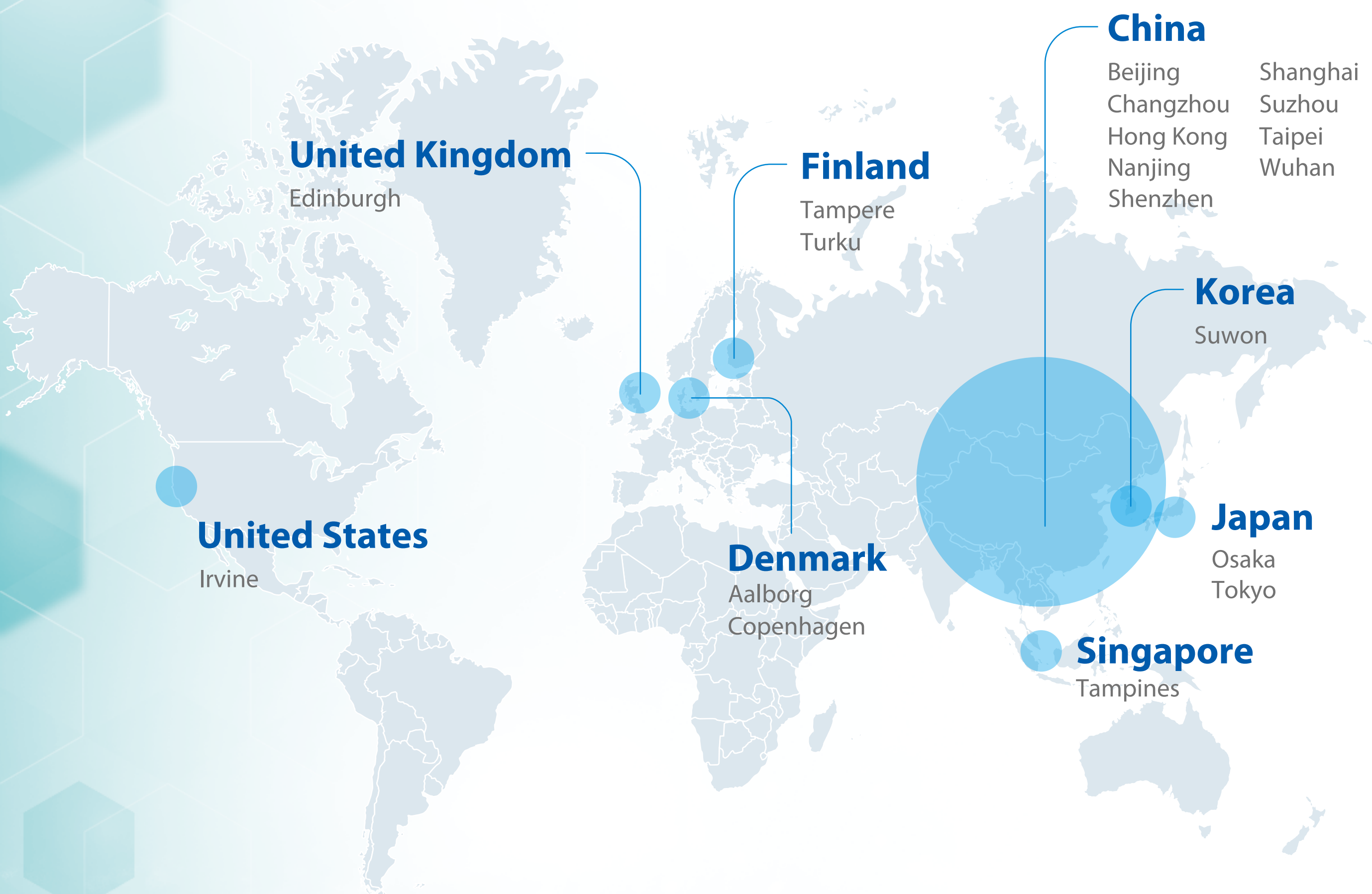
(RMB million or %)



Patents by Segments



R&D Centers



R&D Centers
19

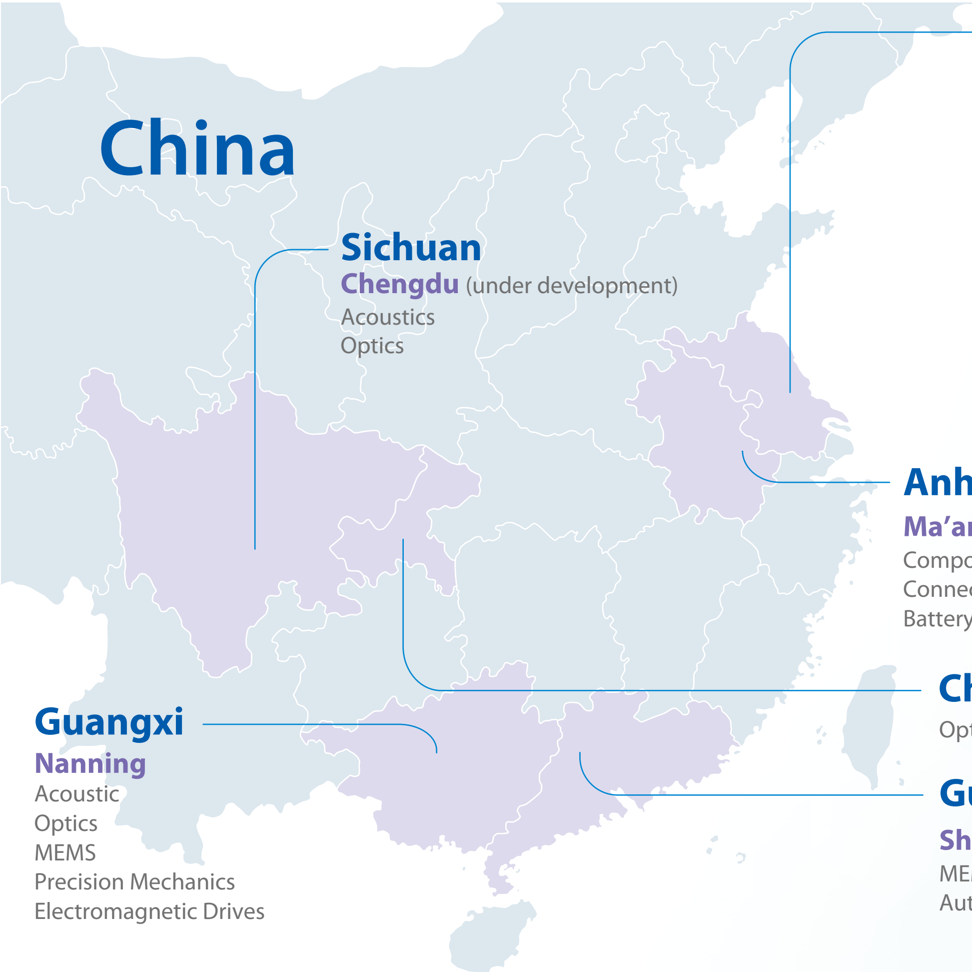
R&D Engineers and Technicians
4,335

Patents
6,034
Overseas: 1,639

Patent Applications
6,287
Overseas: 3,789

Global Presence

Diversified Manufacturing Bases



China

Jiangsu

Changzhou
Acoustics
Electromagnetic Drives
Optics
Precision Mechanics

Shuyang
Precision Mechanics

Suzhou
Optics

Sichuan

Chengdu (under development)
Acoustics
Optics

Anhui

Ma'anshan
Components
Connector
Battery

Chongqing (under development)
Optics

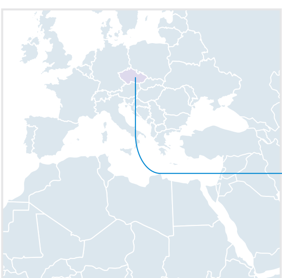
Guangxi

Nanning
Acoustic
Optics
MEMS
Precision Mechanics
Electromagnetic Drives

Guangdong

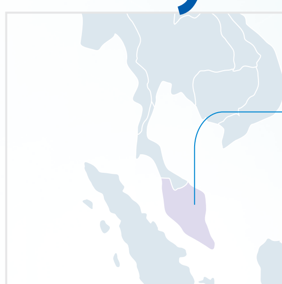
Shenzhen
MEMS
Automation Equipment

Czech



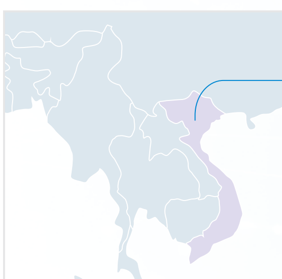
Kozomín (under development)
Optics Moduling

Malaysia



Johor (under development)
Moduling
Optics
MEMS

Vietnam



Bac Ninh
Acoustics

Vinh Phuc (under development)
Ba Thien IP Industrial Park

Bac Giang (under development)
Hoa Phu Industrial Park

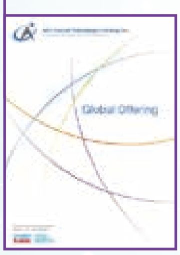
Milestones

1993

Shenzhen Yuanyu, manufactured miniature acoustic components

2005

IPO on the Stock Exchange



2007

Mass production of MEMS microphones

2008

Certified supplier for top 5 global mobile phone makers

Mass production of haptics and waterproof speakers

2009

Acquired ISQR, a Japanese lens designer

Set up Singapore RF design laboratory

2010

Invested in Kaleido, Denmark for WLG technology

Started fully automated production of speakers and receivers

2011

Changed Company's name to AAC Technologies

Invested in MEMS Tech, Singapore for MEMS Die design

2012

Started to ship integrated LDS antennas on speaker boxes

Milestones

2013
Mass production of RF mechanical solutions

2014
Non-Acoustic business (Haptics and RF Mechanics) ramping up, contributing 20% of revenue for the first time

2015
Acquired WiSpry, US for RF MEMS technology

2016
Became the Hang Seng Index constituent stock

Launch of stereo sound solutions

2017
Launch of SLS platform

Mass production of plastic lenses

2018
Shipment of SLS acoustic products

2019
Top 3 global supplier of plastic lenses for smartphones

2020
Mass production of WLG hybrid lenses ready

Chairman and CEO Statement

AAC Technologies is committed to transcend acoustics field and develop a value creation pathway beyond hardware products, so as to become the world's leading solution provider for diversified user experiences.

Looking forward, we'll continue to look for new opportunities to diversify our business areas, further facilitated by resources from capital markets to enhance the Group's overall value.

Dear Shareholders,

2020 was a year with many challenges as well as opportunities. Although we have encountered fast-changing external market conditions, we actively face the challenges and work to improve our core competencies, maintaining the current market shares while capturing opportunities for new business development. The optics business has started to contribute more to top line after years of development. This segment's planned spin-off listing is underway to achieve an independent financing platform. It is expected to set an example for our new business development.

In order to accomplish this vision, we have been strengthening our R&D capability in new products and enhancing customer's satisfaction, to maintain our leadership position in the highly competitive market, stay at the forefront of technology development, as well as lead the industry development and enhancement of end users' experience through innovation and technology. In addition, we will continue to improve our operational management capabilities and manufacturing efficiency so as to provide a solid foundation for high quality product delivery, ensuring our long term goals could be achieved.

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

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

Chairman and CEO Statement

BUSINESS REVIEW

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

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

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

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

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

Chairman and CEO Statement

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

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

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

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

– We established the Sustainability Working Group to help enhance the Board's oversight of ESG risks and opportunities.

– We further defined our sustainability priorities through stakeholder engagement, paving the way for an enhanced management approach to our environmental and social impacts.

– The Group established a clean energy target for 2030 last year and has commenced transition initiatives such as switching to solar energy and introducing electric vehicles.

– Two of the plants in Changzhou have achieved 100% waste diversion under our Zero Waste to Landfill project.

– The Group made substantive progress in digitalizing human resources management, including launch of a mobile office platform, an online grievance reporting system and an online learning platform.

APPRECIATION

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

Zhang Hongjiang
Chairman

Pan Benjamin Zhengmin
Chief Executive Officer

25 March 2021

Market Review

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

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

"5G IOE
commands a new cycle of hardware
innovations"

"New trends of
foldable screens
create rooms for specifications
upgrade"

Performance of Business Segments

Optics

2020

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

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

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

As a business strategy for the Group, the camera module business is considered to be valuable for promoting the optics business and providing a holistic optical solution to customers. Mass production and shipments were on track in Q4 2020.

Optics

as AAC's future key strategic driver

Performance of Business Segments

Optics

2021 Strategy

Going forward, the camera module business is expected to enable the Group to further strengthen its capability for vertical integration and enhance the value-added services of the optics business. Meanwhile, the Group is collaborating with end customers to better understand customers' requirements in terms of optics upgrade and to jointly improve performance of products as well as mass production capabilities in order to provide a better consumer experience.

The Group intended to spin-off optics business for a separate listing to establish independent financing platform to support the sustainable development of the Group.

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

Through different combinations of WLG and plastic lenses, hybrid lenses offer flexible optical design and upgrade roadmaps with greater aperture, lower TTL and better thermal stability to greatly improve image quality and zoom capability for user experience enhancement.

Performance of Business Segments

Acoustics

The stereo sound solutions based on SLS, combined with the unique back cavity design and patented material filling, collaborated with special optimization algorithms, can achieve ultra-low distortion, making the sound field broader, clearer and the bass more powerful.

SLS breaks through the traditional diaphragm design, the diaphragm sway is reduced by the double suspension structure, so the effective amplitude of the diaphragm vibration can be continuously improved, resulting in a fuller low frequency, higher volume with clearer and transparent sound quality.

2020

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

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

2021 Strategy

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

AAC's SLS
adopted
by the top scorer of DXOMARK

Performance of Business Segments

Electromagnetic Drives/Precision Mechanics

2020

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

Electromagnetic Drives

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

During the year under review, the Group's x-axis haptics successfully penetrated into all Android high-tier flagship models and began to enter mid-tier models as well. Currently, the Group is in a close collaboration with smartphone manufacturers and game developers to promote the products, in order to enrich the tactile experience from the perspective of consumers thereby increasing their recognition for the products.

2021 Strategy

Over the years, consumers' recognition on the Group's x-axis haptics has been increasing. Haptics with agile screen tactile feedback offer a better user experience, thus making it more entertaining and fun to use smartphones. It has become a major selling point of high-end smartphones in recent years. The Group's x-axis haptics have merits such as low noise, fast start up and shut down, as well as agile feedback, thus delivering rich human-computer interactive experiences to consumers.

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

AAC produced the world's first horizontal (x-axis) vibration motor and is the world's largest supplier of horizontal vibration motors.

Horizontal vibration motor for low latency, high-acceleration tactile interaction, with strong vibration, low noise, long life and low power consumption, can be applied to virtual button solutions of smart device thus enhancing user experience of human-machine interaction.

Performance of Business Segments

Electromagnetic Drives/Precision Mechanics

Precision Mechanics

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

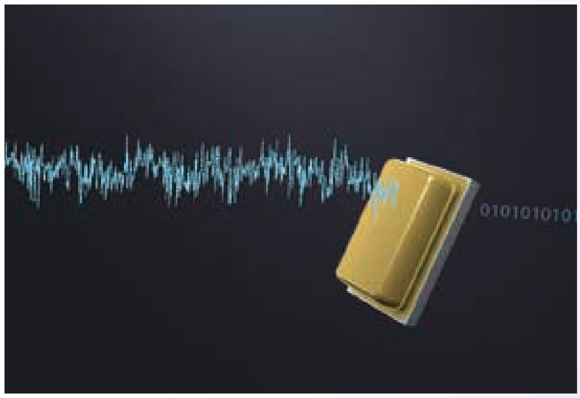
Performance of Business Segments

MEMS

2020

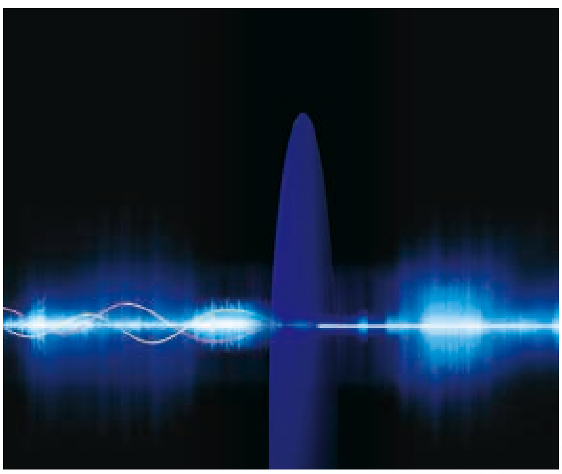
The Q4 2020 revenue of MEMS segment remained stable with a slight decrease of 1.1% to RMB257 million. The gross profit margin decreased by 11.5 ppts to 17.8% YoY. In 2020, its revenue increased by 16.6% YoY to RMB1.08 billion, which was mainly attributable to a change in product structure among its major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

The number of MEMS microphones installed per smartphone increased along with the improvement in speech interaction technology in recent years. The increasing popularity of wearables in the non-smartphone sectors and smart home appliances has also facilitated rapid market growth, and such increasing trend is expected to continue. To meet rising market demand, the Group expanded the production capacity for MEMS microphones during the year under review. Consequently, shipment volumes of these products have increased notably compared to last year.



2021 Strategy

The Group has also successfully entered the IoT product segments via deployment of a distribution model including automotive markets. Our MEMS microphones have already supplied to top-tier car manufacturers. The Group will continue to extend its products into TWS earphones, smart speakers and tablets and will continue to facilitate greater market penetration. Currently, the Group's MEMS microphones have covered a full range of products from low-tier and mid-tier to high-tier segments. Going forward, this segment is expected to steadily expand production capacity based on market demand, so as to contribute more revenue to the Group.



First domestic player

in high-end MEMS microphone with SNR of 70dB above

Financial Review

Revenue

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

Gross Profit and Gross Profit Margin

2020 gross profit was RMB4.2 billion, representing a decrease by 17.2%, from the gross profit of RMB5.1 billion in 2019. The drop in gross profit was primarily due to the reduction in revenue and gross profit margin. Gross profit margin decreased to 24.7% in 2020 as compared with 28.6% in 2019. Although the overall yield and efficiency were improved, the gross profit margin was decreased owing to ASP pressures on legacy products and unfavorable product mix due to slow-down in innovation and specs upgrade.

Administrative Expenses

Administrative expenses in 2020 were RMB672 million, 4.5% higher, compared with RMB643 million in 2019.

Distribution and Selling Expenses

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

Research and Development Expenses

Research and Development expenses in 2020 were RMB1,920 million, 11.8% higher than RMB1,717 million in 2019. The increase was primarily attributable to the higher R&D related to optics business, in line with the Group's plan for a significant growth in production and shipments in the next 12 months and optics as a key growth driver in the future.

Finance Costs

Finance costs in 2020 amounted to RMB353 million, representing an increase of 42.0% compared with RMB248 million in 2019. Such increase in finance costs was mainly due to the additional interest on unsecured notes accompany with the issuance of unsecured notes US$388 million in November 2019 at annual interest rate 3%.

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses in 2020 amounted to RMB147 million, representing a decreased of 55.6% from RMB330 million in 2019. While the effective tax rate has decreased 4.0 ppts compared with that of 2019, the decrease was due to: (i) deferred tax assets RMB95 million recognized during the year; and (ii) the different taxation status of our Chinese operating subsidiaries, which was temporary in nature.

Net Profit and Net Profit Margin

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB3,592.6 million for 2020 (2019: RMB3,843.5 million).

i. Trade Receivables and Payables

As at 31 December 2020, turnover days of trade receivables increased by 5 days to 84 days as compared to 31 December 2019. Trade receivables decreased by RMB826 million to RMB3.5 billion. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,200.9 million (31 December 2019: RMB4,204.5 million), RMB318.7 million (31 December 2019: RMB140.4 million) and RMB0 million (31 December 2019: RMB0.4 million) respectively. The Company has received subsequent settlement totalling RMB2,028.4 million up to 28 February 2021, representing 57.6% of the total amount outstanding, net of allowances, as at the end of the reporting period.

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

ii. Inventory Turnover

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

Investing Activities

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

CAPEX included acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for modifications and upgrades as well as capacity expansion. For 2020 and 2019, total CAPEX incurred were RMB5,088.0 million and RMB3,032.9 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash inflow from financing activities of approximately RMB2,582.2 million for 2020. This was mainly contributed by the capital injections of RMB2,808.0 million from the strategic investors of the optics project as well as the net effect of the additional bank borrowings of RMB2,460.2 million and the bank loans repayment of RMB2,103.7 million.

Cash and Cash Equivalents

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

Gearing Ratio and Indebtedness

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

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

Charges on Group Assets

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

OFF-BALANCE SHEET TRANSACTIONS

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

Key Risk Factors

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

Risks Pertaining to the Smartphones Market

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

Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 85.5% of the Group's total revenue, are all related to the consumer electronics industry, characterized by innovation-driven and user experience-oriented business growth. Loss of or changes in market position of any of these customers may materially and adversely affect the Group's business, financial condition and results of operations. Nevertheless, the Group has focused on technology innovation to continuously enhance user experience meeting customers' specification upgrade needs. We have also implemented standardized procedures for handling all forms of customer information to ensure it is not improperly or inadvertently disclosed to third parties. The Group has strong established relationships with these major customers; all of them have been our customers for over 7 years. The credit terms granted to them are in the range of 60- to 90-day periods and are generally in line with those granted to other customers.

Operational and Obsolescence Risks

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

Key Risk Factors

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

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

Liquidity and Interest Rate Risks

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

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

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

Foreign Exchange Risks

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

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

Key Risk Factors

Intensifying Global Trade Frictions

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

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

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

Risks of Supply Chain and Production Disruption due to Unforeseeable Events

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

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

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Pan Benjamin Zhengmin ("Mr. Pan")

Aged 52, ED and CEO
Appointed to the Board: 15 December 2003

Mr. Pan co-founded the Group in 1993. He is responsible for providing strategic direction and leadership and for developing and implementing the Group's strategic objectives and business plans. Specifically, Mr. Pan has held critical leadership roles with responsibilities for overseeing the sales, marketing, research and development, manufacturing, along with the Group's international expansions and operations. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing some of the Company's acoustic products.

Mr. Pan graduated from 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is the spouse of Ms. Wu Ingrid Chun Yuan ("Ms. Wu"), the non-executive Director and a substantial Shareholder of the Company; and the father of Mr. Kelvin Pan, the Executive Vice President and Chief Innovation Officer of the Company.

Save as disclosed above, Mr. Pan does not have any relationships with other Directors, senior management, substantial Shareholders or controlling Shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Pan and the interests of Mr. Pan in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" sections of the Directors' Report on pages 38 to 41 of this annual report.

Mr. Mok Joe Kuen Richard ("Mr. Mok")

Aged 57, ED
Appointed to the Board: April 2005 as INED
Redesignated: 5 October 2009 as ED

Mr. Mok is responsible for the finance operations, and legal and compliance of the Group. He has over 30 years of experience in the financial services industry, including employments with international accountancy firms such as KPMG, the Hong Kong-listed South China Holdings Company Limited, the investment banking firm, Asian Capital Partners Group and the Hong Kong-listed financial services group Dah Sing Financial Holdings Limited.

Mr. Mok is a member of the HKICPA and the Institute of Chartered Accountants in England and Wales. He graduated with a Bachelor degree of Economics from the London School of Economics and Political Science, London University and held a diploma in applied psychology from Hong Kong Baptist University.

Mr. Mok does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Mok and the interests of Mr. Mok in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" sections of the Directors' Report on pages 38 to 39 of this annual report.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Hongjiang ("Mr. Zhang")

Age 60, INED, Chairman of the Board
Appointed to the Board: 1 January 2019
Chairman of Nomination Committee and Member of Remuneration Committee

Mr. Zhang is currently an independent director of Huami Corp (listed in the US); an independent non-executive director of BabyTree Group (listed in Hog Kong); and an independent director of China Shenzhen listed (神州數碼集團股份有限公司). He is a venture partner of Source Code Capital and a Senior Advisor to The Carlyle Group's Asian private equity platform and chairman of Beijing Academy of Artificial Intelligence.

Previously, Mr. Zhang was the chief executive officer and executive director of Kingsoft Corporation Limited (listed in Hong Kong) and a former director of Cheetah Mobile Inc., Xunlei Ltd. and 21Vianet Group, Inc. (all listed in the US). Mr. Zhang was a director and chief executive officer at Kingsoft Cloud Holdings Limited. He also served as the chief technology officer at Microsoft Asia R&D Group and assistant managing director of Microsoft Research Asia. He was appointed as one of the first 10 Microsoft Distinguished Scientists in 2010.

Mr. Zhang is a Fellow of IEEE and ACM. Mr. Zhang received a Philosophy Doctor in Electrical Engineering from the Technical University of Denmark. He graduated with a Bachelor of Science degree from Zhengzhou University.

Mr. Zhang was the recipient of the 2012 ACM SIGMM Outstanding Technical Achievement Award, the 2010 IEEE Computer Society Technical Achievement Award, and the 2008 Asian American Engineer of the Year award.

Mr. Zhang does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Zhang and the interests of Mr. Zhang in the shares (within the meaning of Division 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's interest in Shares and Underlying Shares and Debentures" sections of the Director's Report on pages 38 to 40 of this annual report.

Biographies of Directors and Senior Management

Mr. Au Siu Cheung Albert ("Mr. Au"), BBS

Aged 69, INED
Appointed to the Board: 1 February 2018
Chairman of Audit and Risk Committee and Member of Remuneration Committee

Mr. Au has more than 40 years of experience in the accountancy profession. Mr. Au is currently the Special Advisor of BDO Limited, a private company. He is an independent non-executive director and the chairman of the audit committee of Café de Coral Holdings Limited (listed in Hong Kong).

Previously, Mr. Au was the founder and chairman of BDO Limited. He was the chairman of the Hong Kong Trade Development Council's professional services advisory committee. He was an independent non-executive director of Hong Kong International Theme Parks Limited. He was president of the Hong Kong Institute of Certified Public Accountants. He was chairman of the Independent Commission Against Corruption's corruption prevention advisory committee and served as a member of its advisory committee on corruption. He was the vice chairman of the Hong Kong Coalition of Professional Services Limited. He was a member of the Air Transport Licensing Authority, the Federation of Hong Kong Industries general committee, the Hong Kong Housing Authority and the Hong Kong Productivity Council where he was also chairman of audit committee. He was a non-executive director of the Securities and Futures Commission (SFC), as well as the chairman of the SFC's audit committee and deputy chairman of the budget committee, member of the SFC (HKEC Listing) appeals committee, the investment committee and the remuneration committee. Mr. Au was an independent non-executive director of ZA Bank Limited (formerly known as ZhongAn Virtual Finance Limited) and ZhongAn Financial Services Limited.

Mr. Au is a fellow member of HKICPA and a member of the Canadian Institute of Chartered Accountants. He graduated with a Bachelor of Commerce degree from the University of British Columbia Canada.

Mr. Au does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Au is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 38 to 39 of this annual report.

Biographies of Directors and Senior Management

Mr. Peng Zhiyuan ("Mr. Peng")

Age 48, INED
Appointed to the Board: 1 January 2019
Member of Audit and Risk Committee and Nomination Committee

Mr. Peng has over twenty years of experience in corporate finance and management. He has served as senior management in various multi-national institutions over the past 15 years. He is currently the Global Strategy Officer for Sands Capital Management.

Previously, Mr. Peng was the founder and chief executive officer of a start-up company in Virginia in innovative eco-friendly technology applications. He was the managing director in the Securities Division and the Investment Banking Division at Goldman Sachs (Asia) LLC, and executive director in the Fixed Income Division at Morgan Stanley. Mr. Peng also served in various roles with Standard Chartered Bank, Bank One (now J.P. Morgan), and AVIC International.

Mr. Peng is a board member of the board of Trustees for Darden School Foundation, and CAV Angels, a non-profit early stage angels investment community related to alumnus of University of Virginia. He also served on the board of Trustees for Virginia Foundation for Independent Colleges. Mr. Peng holds a Master of Business Administration from Darden School of Business, University of Virginia. He graduated with a bachelor's degree in Engineering and Finance from Beijing University of Aeronautics and Astronautics.

Mr. Peng does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Peng is set out in the "Directors and Service Contracts" section of the Director's Report on pages 38 to 39 of this annual report.

Biographies of Directors and Senior Management

Mr. Kwok Lam Kwong Larry ("Mr. Kwok"), SBS, JP

Aged 65, INED
Appointed to the Board: 1 February 2018
Member of Audit and Risk Committee and Nomination Committee

Mr. Kwok is currently an independent non-executive director of Café de Coral Holdings Limited, Shenwan Hongyuan (H.K.) Limited, Starlite Holdings Limited and non-executive director of First Shanghai Investments Limited (all listed in Hong Kong). He is also an independent non-executive director of CMB Wing Lung Bank Limited, a private company in Hong Kong.

Mr. Kwok is a practicing solicitor in Hong Kong, and is a partner of Kwok Yih & Chan, Solicitors. He is also qualified to practice as a solicitor in Australia, England and Wales and Singapore. Mr. Kwok is a fellow member of HKICPA, CPA Australia and The Institute of Chartered Accountants in England and Wales. Mr. Kwok graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

Mr. Kwok does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Mr. Kwok is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 38 to 39 of this annual report.

NON-EXECUTIVE DIRECTOR

Ms. Wu Ingrid Chun Yuan

Aged 50, Non-executive Director
Appointed to the Board: 4 December 2003

Ms. Wu co-founded the Group in 1993. As a non-executive Director of the Group, she is not involved in the day-to-day operations of the Group.

Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. She is the spouse of Mr. Pan, an executive Director, the CEO and a substantial shareholder of the Company; and the mother of Mr. Kelvin Pan, the Executive Vice President and Chief Innovation Officer of the Company. She is also a director of Sapphire Hill Holdings Limited and K&G International Limited, both substantial Shareholders of the Company.

Save as disclosed above, Ms. Wu does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Hong Kong Listing Rules) of the Group.

The term of appointment of Ms. Wu and the interests of Ms. Wu in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares, Underlying Shares and Debentures" sections of the Directors' Report on pages 38 to 41 of this annual report.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Guo Dan ("Ms. Guo")

Aged 38, Chief Financial Officer
Date of Appointment: 2 November 2020

Ms. Guo joined the Company in March 2020, and was appointed as Senior Vice President, Group Finance on 1 October 2020. With effect from 2 November 2020, Ms. Guo serves as the Chief Financial Officer of the Company. Ms. Guo has over thirteen years of investment banking experiences. She previously served as Executive Director of Goldman Sachs (Asia) L.L.C.. Ms. Guo graduated with a Master of Science degree from University of Oxford.

Mr. Ho Siu Tak Jonathan ("Mr. Ho")

Aged 48, Group Legal Director and Company Secretary
Date of Appointment: 25 March 2020

Mr. Ho joined the Company in April 2018 as Legal Director. He was also appointed as Company Secretary on 25 March 2020. He was awarded with a Master's degree in Economics Law from the Peking University and a Bachelor's degree of Law from the University of Hong Kong. Being a member of the Law Society of Hong Kong, he has over 20 years' experience in legal and management. He has acted as various senior roles in several Hong Kong main board listed companies.

Dr. Kim Chul Ho ("Dr. Kim")

Aged 59, Chairman of Asia Pacific Region (ex-PRC)
Date of Appointment: 20 November 2019

Dr. Kim joined the Company in December 2007. Effective from 20 November 2019, Dr. Kim serves as chairman of Asia Pacific Region (ex-PRC), with the objective to establish a stronger corporate presence in this region and responsible for enforcing strategic relationships with key customers, suppliers and partners, contributing to the Group's global expansion initiatives, establishing relations with regional governments and institutions, and locating and recruiting world-class talents of top technical, marketing and management personnel in this region. Concurrently, Dr. Kim serves as Senior Vice President of Human Resources.

Dr. Kim is experienced in the development of electronic device and related mass production technologies, and also did research and development management for over 15 years in Samsung Korea. Dr. Kim has successfully developed many key devices and related mass production technologies for mobile terminal.

Dr. Kim obtained a Doctor's degree of Material Science at Seoul National University and finished post doctor course in Korean Institute of Science and Technologies (KIST).

Biographies of Directors and Senior Management

Mr. Pan Kaitai Kelvin ("Mr. Kelvin Pan")

Aged 29, Executive Vice President and Chief Innovation Officer
Date of Appointment: 1 January 2021

Mr. Kelvin Pan joined the Company in March 2014. Currently serves as Executive Vice President (effective from 1 January 2021) and Chief Innovation Officer (effective from 24 August 2019). He leads corporate strategy and new business planning. Apart from committing to the long term investments in advanced technology and new business development, Mr. Kelvin Pan is also in charge of driving the transformation of business strategy, operating models, organizational structures and processes, with a focus on promoting innovation-driven development. Meanwhile, Mr. Kelvin Pan is also leading product management and research. He values end user experience and sets it as one of our key input for product definition, and is committed to the expansion of new products and the development of technology roadmaps, to ensure that our products can continuously improve the user experience. Under his leadership, the team has completed a number of crucial research and development projects for the next generation products. In addition, he manages the information technology team to further enhance organizational collaboration efficiency by utilizing leading edge digital platform and optimizing cross departmental management.

Mr. Kelvin Pan holds a Bachelor of Science degree in Mathematics and Computer Science awarded by Boston University. He is the son of Mr. Pan, the ED and CEO of the Company, and Ms. Wu, the non-executive Director of the Company, both of them are the substantial Shareholders of the Company.

Mr. David Plekenpol ("Mr. Plekenpol")

Aged 61, Chairman of European and American Regions
Date of Appointment: 20 November 2019

Formerly our Chief Strategic Officer, Mr. Plekenpol joined the Company in February 2010. He had led the advanced technology team to identify forward-looking technologies to be integrated with the Company's products and solution platforms to contribute to the creation of superior and differentiated end-user experiences. Effective from 20 November 2019, Mr. Plekenpol has been appointed as chairman of European and American Regions, with the objective to establish a stronger corporate presence in these regions and re-enforce strategic relationships between the Group and regional customers, suppliers and governments. He is responsible for the investigation and tracking of new technologies from these regions and their potential impact to AAC Technologies. Importantly, through the globalization strategy of AAC Technologies, he will assist the Group to identify and recruit top technical, marketing and management personnel in these regions.

Mr. Plekenpol has spent over 25 years in the telecom industry, with executive positions in both Lucent and Alcatel. He has founded two Silicon Valley venture capital backed startup companies, led sales and marketing for an optical component startup in Scotland and spent two years with a venture capital backed Chinese mobile design startup in Shanghai before joining AAC Technologies. Mr. Plekenpol is a member of the international advisory board for the University of Edinburgh Business School. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University.

Directors' Report

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2020, which were approved by the Board of Directors on 25 March 2021.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in Management Discussion and Analysis on pages 15 to 21 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 35 to the consolidated financial statements. Details of principal risks and uncertainties affecting the Company are provided in Key Risk Factors on pages 25 to 27 of this annual report. An analysis of the Group's performance is provided in the summary of the results and of the assets and liabilities of the Group for the last five financial years as set out on pages 168 to 169 of this annual report. Analysis using financial key performance indicators (KPIs) are provided in the Financial Highlights on pages 6 to 7 and Financial Review on pages 22 to 24 of this annual report. In addition, discussions on the Group's environmental, social and governance policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report and section of Sustainability on pages 50 to 84. The sustainability report for 2020 is expected to be available on the Company's corporate website on or around 15 April 2021.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 89.

An interim dividend of HK$0.10 per ordinary share was paid during 2020. The Directors of the Company have resolved to recommend the payment of a final dividend of HK$0.20 per ordinary share.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the retained earnings, the share premium accounts and the special reserve which amounted to RMB1,585,500,000 (2019: RMB1,707,881,000). Under Section 34 of the Companies Act of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and the Articles and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles and there are no restrictions against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Directors' Report

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this annual report are:

Executive Directors

Mr. Pan Benjamin Zhengmin (CEO)
Mr. Mok Joe Kuen Richard

Independent Non-executive Directors

Mr. Zhang Hongjiang (Chairman of the Board)
Mr. Au Siu Cheung Albert
Mr. Peng Zhiyuan
Mr. Kwok Lam Kwong Larry
Mr. Koh Boon Hwee (Retired on 15 May 2020)
Mr. Poon Chung Yin Joseph (Retired on 15 May 2020)

Non-executive Director

Ms. Wu Ingrid Chun Yuan

Appointment and Re-election of the Directors of the Company

In accordance with Article 84 of the Articles, Mr. Au, Mr. Kwok and Ms. Wu will retire by rotation at the forthcoming AGM of the Company. Mr. Au, Mr. Kwok and Ms. Wu, being eligible, offers themselves for re-election at the forthcoming AGM of the Company.

Directors' Service Contract

Each of Mr. Pan, Mr. Mok, Mr. Zhang, Mr. Peng and Ms. Wu will enter into a letter of appointment with the Company for a term from the date of 2021 AGM to be held on 14 May 2021 until the conclusion of the AGM of the Company to be held in 2023, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Company's Articles or any applicable law.

Each of Mr. Au and Mr. Kwok has entered into a letter of appointment with the Company for a term from the date of 2020 AGM held on 15 May 2020 until the conclusion of the AGM of the Company to be held in 2022, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Company's Articles or any applicable law.

Other than as disclosed above, no Director of the Company proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, and considers that the independent non-executive Directors are independent.

Biographical details of the Directors of the Company and senior management of the Group as at the date of the annual report are set out on pages 28 to 36.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the beneficial interests of the Directors of the Company and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code, were as follows:

Long positions in the ordinary shares of the Company:

		Number of ordinary shares					
Name of Directors of the Company	Capacity	Personal interests	Corporate interests	Spouse interests	Other interests	Total number of shares	Percentage of the Company's issued shares as at 31 December 2020[1]
Mr. Pan[2]	Beneficial owner/interest of spouse/ interest of controlled corporation/ founder of a discretionary trust	68,262,162	51,439,440	262,820,525	112,795,525	495,317,652	40.98%
Ms. Wu[3]	Interest of spouse/interest of controlled corporation/founder of a discretionary trust	–	262,820,525	120,952,005	111,545,122	495,317,652	40.98%
Mr. Mok	Beneficial owner	100,000	–	–	–	100,000	< 0.01%
Mr. Zhang[4]	Beneficial owner	100,000	–	–	–	100,000	< 0.01%

Notes:

(1) Percentage was computed based on the 1,208,500,000 issued shares as at 31 December 2020.

(2) Mr. Pan beneficially owns 68,262,162 shares. In addition, Mr. Pan is also deemed or taken to be interested in the following shares for the purpose of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan;

(ii) 262,820,525 shares representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited and (b) 127,991,931 shares which are beneficially owned by K&G International Limited. These two companies are wholly-owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and

(iii) 112,795,525 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10 May 2005; (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10 May 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18 and have no discretion over distributions or investments in these trusts until distribution is made to them; and (c) 1,250,403 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendant, as beneficiaries of the Pan 2020 Exempt Trust dated 3 December 2020. One child of Mr. Pan and Ms. Wu is under the age of 18 and has no discretion over distributions or investments in the trust until distribution is made to him.

(3) Ms. Wu is deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 262,820,525 shares representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited; and (b) 127,991,931 shares which are beneficially owned by K&G International Limited. These two companies are wholly-owned by Ms. Wu;

(ii) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; (b) 68,262,162 shares which are beneficially owned by Mr. Pan; and (c) 1,250,403 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendant, as beneficiaries of the Pan 2020 Exempt Trust dated 3 December 2020, and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and

(iii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10 May 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10 May 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18 and have no discretion over distributions or investments in these trusts until distribution is made to them.

(4) Mr. Zhang disposed 100,000 shares on 5 January 2021.

Long positions in the debentures of the Company:

Name of Directors	Capacity/Nature of interest	Principal amount of Notes [1] held (USD)
Mr. Pan [2]	Interest of spouse/Family interest	330,000
Ms. Wu [3]	Interest of controlled corporation/Corporate interest	330,000

Notes:

(1) The Company issued US$388,000,000 notes ("Notes"), to be matured in 2024 to third party professional investors, and, the Notes are listed on the Stock Exchange (stock code: 40075). The Notes bear interest at the rate of 3.00% per annum, payable semi-annually in arrears on 27 May and 27 November in each year.

(2) Mr. Pan is deemed or taken to be interested in this amount of Notes which were held by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such amount of Notes.

(3) Ms. Wu is deemed or taken to be interested in this amount of Notes which are held by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu.

Other than as disclosed above, as at 31 December 2020, none of the Directors of the Company, chief executive nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

Disclosure of Conflict of Interest

Directors are requested to declare their personal or business interests, if any, in any transactions to be considered by the Board and such declaration of interest would be reviewed and discussed prior to the Board meetings and, as appropriate, Directors will or will be asked to abstain from the meetings.

Arrangements to Purchase Shares or Debentures

Save as disclosed in this annual report, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company or their close associates (as defined under the Hong Kong Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTION

During 2020, on 23 December 2020, as announced on the same date, AAC Optics (Changzhou) Co., Ltd. ("AAC Optics"), a subsidiary of the Company, entered into a capital increase agreement with three limited partnerships, the general partner of which is a company wholly-owned by Mr. Kelvin Pan, who is the son of Mr. Pan, the ED and CEO of the Company, and Ms. Wu, the non-executive Director of the Company, both of them are the substantial Shareholders of the Company.

The sole purpose of the capital increase agreement with the three limited partnerships is to create share incentive platforms ("Subsidiary Share Incentive") as vehicles to provide selected employees of AAC Optics and relevant personnel a means to have equity in AAC Optics and to recognise and further encourage the dedication of management and staff at all levels and core personnel of AAC Optics. Mr. Kelvin Pan, being the executive vice president and chief innovation officer of the Company, will be responsible for the administration of the share incentive platforms.

The amount of shares subscribed per the capital increase agreement accounted for approximately 2.0% of enlarged issued share capital of AAC Optics, corresponding to a consideration of RMB135,377,918. The subscription amount has not been paid up as at 31 December 2020.

CONTINUING CONNECTED TRANSACTIONS

During 2020, the Group had entered into the continuing connected transactions with certain connected persons of the Company reported in this section. They constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirement under Chapter 14A of the Hong Kong Listing Rules.

2020 Lease Agreements

The Group entered into certain lease agreements ("2020 Lease Agreements") with the respective lessors for the renewing lease of offices and production facilities necessary for the business activities of the Group on 20 December 2019. A summary of the transactions is as follows:

Date of agreement	Lessee	Lessor	Property	Total Leased Floor Area (Approximately sq.m)	Term	Usage	Annual Caps RMB'000*	2020 Actual RMB'000*
20.12.2019	The Group	深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.) ("Shenzhen Yuanyu")	The Shenzhen Yuanyu Nanda Premises at Nanda Building, Nanshan, Shenzhen, PRC.	10,540.96	1.1.2020 – 31.12.2022	Offices	2020 – 13,282 2021 – 13,282 2022 – 14,079	12,965
20.12.2019	The Group	常州市來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd.) ("Changzhou LFY")	The Changzhou LFY Gang Qiao Premises at Nanxiashu Town, Wujin District, Changzhou, Jiangsu Province, PRC.	13,369 (including ancillary areas)	1.1.2020 – 31.12.2022	Factory and warehouse	2020 – 1,918 2021 – 1,955 2022 – 2,029	1,678
20.12.2019	The Group	江蘇遠宇電子投資集團有限公司 (Jiangsu Yuanyu Electronics Investment Group Co., Ltd.) ("Jiangsu Yuanyu")	The Jiangsu Yuanyu Technologies Building Premises at Science & Education Mega Centre, Wujin District, Changzhou, Jiangsu Province, PRC.	29,736 (including ancillary area)	1.1.2020 – 31.12.2022	Factory and offices	2020 – 10,556 2021 – 11,082 2022 – 11,608	10,556
20.12.2019	The Group	紅光(越南)塑業有限公司 (Hongguang Viet Nam Plastic Company Limited) ("HVPC")	The HVPC Premises at Lot E3-3 Que Vo IP, Van Duong Commune, Bac Ninh city, Bac Ninh Province, Vietnam.	3,344	1.1.2020 – 31.12.2022	Warehouse	2020 – US$160,600 2021 – US$160,600 2022 – US$160,600 (excluding estimated water and electricity costs)	US$160,512

* Unless otherwise stated.

2020 Purchase Agreements

The Group entered into certain purchase agreements ("2020 Purchase Agreements") with respective supplier in order to assure the continuous supply of production materials to cope with the Group's expected production needs on similar terms. A summary of the transactions is as follows:

Date of agreement	Purchaser Group	Supplier Group	Materials for purchase	Term	Annual Caps RMB'000	2020 Actual RMB'000
20.12.2019	The Group	a) 常州凌迪電子科技有限公司 (Changzhou Lingdi Electronics Technologies Co., Ltd.) ("Changzhou Lingdi"); and b) 紅光（越南）塑業有限公司 (Hongguang Viet Nam Plastic Company Limited) ("HVPC")	Certain materials and products including but not limited to foam blocks, calcium plastic boards, load plates, carrier bands, plastic plates and plastic trays	1.1.2020 – 31.12.2022	2020 – 120,000 2021 – 130,000 2022 – 140,000	47,176
20.12.2019	The Group	常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.) ("Changzhou Yousheng")	Parts for use in acoustic and optical components e.g. foam, adhesives, mesh, domes, ear cushions, insulation mats and resistance neeb	1.1.2020 – 31.12.2022	2020 – 60,000 2021 – 80,000 2022 – 90,000	32,723
20.12.2019	The Group	四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials Technology Group Co., Ltd.) ("YDL Materials")	Materials e.g. chemical adhesives	1.1.2020 – 31.12.2022	2020 – 20,000 2021 – 25,000 2022 – 30,000	763

Pursuant to the 2020 Leasing Agreements and 2020 Purchase Agreements, relevant members of the Group entered into separated leasing agreements and purchase orders with respect to each of the continuing connected transactions. The terms of, and the consideration payable under each of these leasing agreements and purchase orders were negotiated on arm's length bases, on normal commercial terms or better, which, from the Group's perspective, were no less favorable than those which the relevant members of the Group could obtain from independent third-parties. In addition to the above, to ensure the transactions contemplated under the 2020 Purchase Agreements to be fair and reasonable, the Group obtained quotations from no less than two independent third-party suppliers in addition to the quotation from connected person so that the Group will compare three quotations for procurement of materials and products.

The Group's internal audit function has reviewed the continuing connected transactions for the year ended 31 December 2020, and the internal control systems. The Group's internal audit function has (i) conducted quarterly evaluation and assessment on the internal control systems, the pricing mechanism and the Group's IT procurement system; (ii) performed regular internal audit checking on the Group's continuing connected transactions; (iii) alerted the Group's compliance and procurement departments on a timely basis if there is any issue identified; and (iv) submitted a quarterly report to the Directors regarding the results of the above-mentioned evaluation, assessment as well as internal audit checking so as to ensure that the continuing connected transactions in 2020 were conducted in accordance with the terms of the 2020 Leasing Agreements, 2020 Purchase Agreements, and in compliance with the internal control systems.

Confirmation from the Directors and the Auditors

The independent non-executive Directors had reviewed the continuing connected transactions in 2020 and the findings, and, reports provided by the Group's internal audit function, and are satisfied that the pricing mechanism and internal control systems in place were sufficient, and effective, and the transactions were entered into by the Group (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has engaged its external auditor to review the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company reported that the auditor had confirmed the matters set out in Rule 14A.56 of the Hong Kong Listing Rules regarding the continuing connected transactions for the year ended 31 December 2020.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The Connected Relationships

The relevant parties to the above continuing connected transaction with the Group and a description of their connected relationships with the Group are as follows:

The connected party	The person in relation with connected party
Changzhou LFY	A company owned by Mr. Pan Zhonglai, Mr. Pan's Father and Ms. Xie Yufang, Mr. Pan's Mother each as to 50%
Changzhou Lingdi	A company owned by Ms. Ye Huamei, Ms. Wu's Mother as to 51% and Ms. Wu Yayuan, Ms. Wu's sister as to 49%
Changzhou Yousheng	A company owned by Ms. Xie Yufang, Mr. Pan's Mother as to 30% and Ms. Pan Lijun, Mr. Pan's sister as to 70%
HVPC	A company indirectly wholly-owned by Ms. Ye Huamei, Ms. Wu's Mother
Jiangsu Yuanyu	A company owned by Changzhou LFY and Changzhou Yulai Electronics Co., Ltd. (a company ultimately beneficially owned as to 50% by each of Mr. Pan Zhonglai, Mr. Pan's Father and Ms. Xie Yufang, Mr. Pan's Mother)
Shenzhen Yuanyu	A company wholly-owned by Ms. Ye Huamei, Ms. Wu's Mother
YDL Materials	A subsidiary of Jiangsu Yuanyu, and which is also indirectly held as to 30% by Ms. Wu

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 39 to the consolidated financial statements and include transactions that constitute continuing connected transactions for which the disclosure requirements under the Hong Kong Listing Rules have been complied with.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the register of interests and short positions kept by the Company under Section 336 of the SFO, other than the Directors of the Company and chief executive, showed that the following persons held interests or short positions in the Company's shares, some of which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above:

Name of Shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 31 December 2020[1]
JPMorgan Chase & Co. [2]	Interest of controlled corporation/ Person have security interest in shares/Investment Manager/ Trustee/Approved lending agent	120,400,956(L)	5,205,244(L)	10.39%
		1,355,199(S)	13,270,275(S)	1.21%
		7,586,442(P)	–	0.62%

L — Long position
S — Short position
P — Lending pool

Notes:

(1) Percentage was computed based on the 1,208,500,000 issued shares as at 31 December 2020.

(2) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is indirectly interested in (i) an aggregate of 120,400,956 shares and listed derivative interests of 1,530,000 shares with physically settled, listed derivative interests of 580,100 shares with cash settled, unlisted derivative interests of 184,644 shares with physically settled, and unlisted derivative interests of 2,910,500 shares with cash settled in long position; and (ii) an aggregate of 1,355,199 shares and listed derivative interests of 1,069,000 shares with physically settled, listed derivative interests of 2,972,000 shares with cash settled, unlisted derivative interests of 7,820,051 shares with physically settled, and unlisted derivative interests of 1,409,224 shares with cash settled in short position. Among them, 111,558,925 shares were held by JPMorgan Group as a trustee, including 111,545,122 shares held by J.P. Morgan Trust Company of Delaware which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above.

In addition to the above, JPMorgan Chase & Co. is also interested in 7,586,442 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

EMOLUMENT POLICY

The Remuneration Committee assisted the Board on formulating remuneration policy and reviewing the emoluments of senior management and the Directors of the Company. Responsibilities and work performed in 2020 by the Remuneration Committee are stated on pages 67 to 71 in the Corporate Governance Report.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, subject to relevant laws, every Director of the Company shall be indemnified out of the assets of the Company against all losses and liabilities which the Directors of the Company may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors of the Company.

SHARE AWARD SCHEME & SUBSIDIARY SHARE INCENTIVE

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "Scheme") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Scheme during its term is limited to 1.65% (i.e. 19,940,250 shares as at 25 March 2021) of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 6,042,500 shares as at 25 March 2021) of the issued share capital of the Company from time to time. Pursuant to the Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Hong Kong Stock Exchange, by Bank of Communications Trustee Limited (the "Trustee") at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules, and is a discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 2020, no shares had been subscribed or purchased by the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been granted to Selected Employee(s) under the Scheme.

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

In addition to the above Scheme, as disclosed under "Connected Transaction", a subsidiary of the Company, AAC Optics, operates a Subsidiary Share Incentive.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, no equity-linked agreements were entered into during the year or subsisted at the end of this year.

DONATION

For the year ended 31 December 2020, the Group made donations equivalent to approximately RMB880,000 to various communities related to COVID-19 precautionary measures.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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

HUMAN RESOURCES

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

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 85.5% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 40.6% of the Group's total revenue from sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 23.3% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 6.3% of the Group's total purchases.

As at 31 December 2020, Ms. Wu, the non-executive Director of the Company, holding more than 5% of the Company's share capital, had beneficial interests in one of the Group's five largest customers. The customer has the usual trading terms as any other customers of the Group. At no time during the year and up to the date of this annual report, had Ms. Wu's interests in the customer exceeded 1%. To the knowledge of the Directors of the Company, Ms. Wu has never been a director, nor involved in management, of these customers or suppliers.

Save as disclosed above, none of the Directors of the Company, their close associates or any Shareholder which to the knowledge of the Directors of the Company, owns more than 5% of the Company's share capital had an interest in any of the five largest customers or suppliers.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors of the Company or their respective close associates (as defined in the Hong Kong Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors of the Company were appointed as Directors of the Company to represent the interests of the Company and/or the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

In accordance with the publicly available information and as far as the Directors of the Company are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31 December 2020 and has continued to maintain the public float as at the date of this annual report.

AUDITOR

The consolidated financial statements for the year have been audited by Deloitte. A resolution will be submitted to the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
AAC Technologies Holdings Inc.

Zhang Hongjiang
Chairman
25 March 2021

Corporate Governance Report

CORPORATE GOVERNANCE POLICY AND PRACTICES

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

Based on regular reviews of the Company's actual performance against the CG Code in Appendix 14 to the Hong Kong Listing Rules, the Board is satisfied that throughout the financial year ended 31 December 2020, the Company has complied with all the Code Provision(s). Furthermore, the Company strives to go beyond Code Provisions compliance by embracing the latest and the best recommended corporate governance practices, such as correlating significant proportion of the executive Directors' remuneration with the corporate and individual performances, the Board and Committees conducting annual evaluation of the Board and Committees performance, and putting effective whistleblowing policy in place.

The Board recognizes the need to continuously adapt and improve our corporate governance policies and practices in light of our experience, increasingly stringent regulatory requirements, international developments and stakeholders expectations. It is committed to high standards of disclosure as well as to excellence in corporate governance. The Company's Corporate Governance framework comprises the following key components:

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

Details of the key components related to Corporate Governance framework are also available on the website of the Company.

BOARD AND EXECUTIVE MANAGEMENT

The overall stewardship of the Company's operations is vested in the Board. The Board takes central responsibilities to formulate, approve, evaluate and regulate the overall strategic directions and policies of the Company. In doing so, the Board will oversee and review the Company's business including operating performance, effectiveness of risk management and internal control systems, corporate governance policies, compliance, organization structure and management's performance.

The positions of Chairman and CEO are separate. Our CEO has the overall responsibility for carrying out the strategy and direction set by the Board and for managing the Group's business. During the year, the management runs the day-to-day operation with the related financial limits of a schedule of matters designated for management approved by the Board. Management is to submit business plans or investment proposals to the Board if they fall outside the designated limits. The Board also reviews and approves the annual operating and capital budgets, and when appropriate, incremental items/amounts outside the approved budgets will be raised to the Board for approval. Under the supervision of the CEO, management is responsible for the daily operations of the Group. The CEO and senior management report on business operations, financial results and strategic matters to the Board on a quarterly basis, and provide key updates on a monthly basis.

GOVERNANCE STRUCTURE & BOARD COMMITTEES

Composition of Board and Committees

Board of Directors

Zhang Hongjiang	(INED & Chairman of the Board)
Au Siu Cheung Albert	(INED)
Peng Zhiyuan	(INED)
Kwok Lam Kwong Larry	(INED)
Wu Ingrid Chun Yuan	(NED)
Pan Benjamin Zhengmin	(ED & CEO)
Mok Joe Kuen Richard	(ED)

Audit and Risk Committee* (all INEDs)	Nomination Committee* (all INEDs)	Remuneration Committee* (all INEDs)
Established in April 2005	Established in April 2005	Established in April 2005
Current Members	**Current Members**	**Current Members**
Au Siu Cheung Albert (Chairman)	Zhang Hongjiang (Chairman)	Peng Zhiyuan (Chairman)
Peng Zhiyuan	Peng Zhiyuan	Zhang Hongjiang
Kwok Lam Kwong Larry	Kwok Lam Kwong Larry	Au Siu Cheung Albert

* There is no fixed term of office of the Committee members. The Board will review the same periodically.

The Board's Roles and Responsibilities

Our Board plays more than a key role in our Corporate Governance Framework. Under the leadership of our Chairman, the Board actively promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner.

Some of the key responsibilities of the Board include:

Strategy & Management

- The Board will formulate, update and refine the Group's strategy and business objectives.
- Every quarter, major investing and financing activities will be approved and management is evaluated on the implementation progress to monitor the Group's businesses against plan and budget.
- Overseeing the management of the Group's relationships with stakeholders.

Corporate Governance, Risk Management & Sustainability

- The Board will approve amendments to policies and review implementations related to Group's Corporate Governance, internal controls, risk management and sustainability practices.

Financial Results

- The Board will approve the Group's annual budgets, quarterly, interim and annual financial statements and results announcements, recommend reappointment of external auditor and declare interim and final dividends (if any).

Effectiveness of Committees

- The performances of the Board and the Committees are evaluated by all Directors annually.
- All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Board Committees Structure

In discharging its governance and other responsibilities, the Board has established individual Board Committees with defined terms of reference to assist the full Board. The three Board Committees, all chaired by independent non-executive Directors and comprising all independent non-executive Directors, are illustrated in the following governance structure:

STAKEHOLDERS

BOARD OF DIRECTORS

- Collectively responsible for long-term success of the Group and interests of Shareholders
- Oversees overall governance, financial performance and sustainability development of the Group

EXECUTIVE DIRECTORS & SENIOR MANAGEMENT
biographies on p.28-29, p.35-36

- Delivers the Company's strategies and objectives including assessing and identifying technology trends and development, for the Company
- Day-to-day management of the Group's businesses operation
- Analyses the global market situation and sales performance of the Company's products
- Provides input and reviewing on production planning
- Conducts products and key accounts analysis
- Implements sales & products strategy for customers
- Estimates products sales status and forecast

AUDIT & RISK COMMITTEE
p.59-63 have more details

- Ensures proper financial reporting and disclosure
- Reviews risk management, compliance and internal control systems
- Ensures prudent and effective controls are in place to duly assess and manage risks
- Reviews the Company's policies and practices on corporate governance
- Reviews on compliance with legal and regulatory requirements
- Reviews the Company's compliance with the CG Code and disclosure of the CG report
- Monitors internal audit, oversees the relationship and coordination between the Company, Head of internal audit and external auditor

NOMINATION COMMITTEE
p.63-67 have more details

- Recommends Board appointments and ensuring proper and transparent procedures
- Reviews Board structure, size, composition and diversity of the Board
- Assesses independence of independent non-executive Directors
- Succession planning for the chief officers
- Reviews and monitors the training and continuous professional development of Directors
- Being consulted upon the hiring, promotion and appointment of senior management

REMUNERATION COMMITTEE
p.67-71 have more details

- Sets remuneration policy and structure for executive Directors, non-executive Directors and senior management
- Plans and reviews management's remuneration proposals with reference to the Board's corporate goals and objectives
- Determines executive Directors' and senior management's remuneration and incentives

Operations | **Internal Audit Team/ External Auditor** | **Board Composition/Senior Management/ Human Resources**

Details of the responsibilities of the Board Committees are set out below. Their terms of reference, including their duties, have been published on the websites of the Stock Exchange and the Company.

Delegation by the Board

In addition to the individual Board Committees, established to assist the full Board in specific areas, the responsibilities for delivering the Company's strategies and objectives, and day-to-day management of the Group's businesses are delegated to the executive Directors, and the team of senior management.

Board Process

Board meetings are held regularly and at least four times a year at approximately quarterly intervals with active participation of the Directors, either in person or through electronic communication. Apart from the regular scheduled Board meetings, other Board meetings will be held in occasions when appropriate, such as publishing announcements and reviewing significant investment opportunities.

Board and Committees Evaluation

Separate INED meeting

The Chairman of Board held meetings with INEDs without the presence of other Directors and management during 2020 to evaluate the performance of the executive Directors and the effectiveness of the Board on 25 March 2020 and 24 August 2020.

Evaluation

In addition, we undertake a performance evaluation of our Board and Committees internally on a yearly basis. In March 2020 and March 2021, the Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee underwent an annual evaluation of their effectiveness and performance with regard to the years 2019 and 2020 respectively, through completion of questionnaires by the Board and Committee members.

Questionnaire — Key Evaluation Areas

- Structure and Composition of the Board and Committees, such as size, selection process
- Responsiveness to special incidents, diversity of Board members
- Board culture and collegiality
- Board information quality: accuracy, relevance, digestibility, timeliness and access to management
- Board process and adequacy of meetings
- Relationship with management (performance measures, visibility, mutual trust)

The results of the evaluation were such that the Board and all Committees were found to be operating effectively, nothing significant had affected the Board or the Committees performance and no material issue needed to be tabled for discussion. Reporting of matters by all the Committees to the Board were found to be clear and adequate. The Directors are satisfied that the Board and its Committees have the right mix of expertise, experience and skills.

Independency of Directors

Ms. Wu, the non-executive Director, is not considered as independent, as she is the spouse of the CEO, Mr. Pan, and together with the CEO and their family trusts, has a substantial interest (holding approximately 40.98% interest in the Company as at the financial year ended 31 December 2020). Her knowledge and investment experience of the industry in which the Company operates continue to contribute valuably to the functioning of the Board as a whole. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders.

In the event that the interests of the Shareholder and the Company are not aligned, the Board prioritizes the Company's interests over that of any Shareholder. When the major Shareholder is materially interested in a matter, the relevant Directors will, according to the Articles, abstain from voting on such resolutions.

The Board is committed to maintain an independent Board comprising a majority of independent non-executive Directors, two executive Directors, and a non-executive Director. We separate the roles of the CEO and the Chairman of the Board since the first date of listing. Currently, the CEO is Mr. Pan and the Chairman of the Board is Mr. Zhang. We believe that this Board structure demonstrates our commitment to good corporate governance and benefits our shareholders by enhancing the oversight of management by the Board, and encouraging balanced decision making.

An updated list of Directors identifying their roles and functions and whether they are independent non-executive Directors has been published on 15 May 2020 on the websites of the Stock Exchange and the Company, and under the section of Biographies of Directors and Senior Management of this annual report on pages 28 to 36. Terms of appointment for all non-executive Directors (including independent non-executive Directors) were set out in the Directors' Report on pages 38 to 39.

The Company has received, from each of the independent non-executive Directors, an annual written confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. Based on the assessment conducted by the Nomination Committee, it is considered that all of the independent non-executive Directors are independent.

Disclosure of Conflict of Interest

Directors are requested to declare their personal or business interests, if any, in any transactions to be considered by the Board and such declaration of interest would be reviewed and discussed prior to the Board meetings and, as appropriate, Directors will or will be asked to withdraw from the meetings.

Identified related party transactions are disclosed in Directors' Report from page 42 to 45. Also, as disclosed on page 49, as at 31 December 2020, Ms. Wu, the non-executive Director holding more than 5% of the Company's share capital, had beneficial interests in one of the Group's five largest customers. The customer has the usual trading terms as any other customers of the Group. At no time during the year and up to the date of this annual report, had Ms. Wu's interests in the customer exceeded 1%. Ms. Wu has never been director of the customer nor involved in its management.

Save as disclosed above, none of the Directors, their close associates had an interest in any of the five largest customers or suppliers.

Board Agenda Schedule

Sufficient notice of not less than 14 calendar days, is given for regular Board meetings to all Directors enabling them to attend, and reasonable notice will be given in case of other Board meetings. The Directors receive details of agenda items well in advance of each Board meeting. Board minutes are kept by the Company Secretary and are sent to the Directors for review before sign-off and for their records. The minutes are also made available for inspection by all the Directors and the external auditor.

Board Activities

January - March 2020

- preliminary assessment of management accounts for the 3-month ending 31 March 2020
- reporting from Audit and Risk Committee and other committees
- 2019 annual results and report
- evaluation of Board performance for the year 2019
- audit matters for the year 2019
- re-appointment of external auditor for the year 2020
- connected transactions/continuing connected transactions
- directors' and officers' liability insurance
- sustainability report for the year 2019
- risk management & internal controls
- corporate governance compliance
- AGM matters of 2020
- Company's policies, reviewing terms of reference of the Board Committees
- retirement and re-election of Directors
- business operation and legal updates

April - June 2020

- reporting from Audit and Risk Committee and other committees
- quarterly results
- risk management & internal controls
- connected transactions/continuing connected transactions
- business operation and legal updates

July - September 2020

- reporting from Audit and Risk Committee and other committees
- 2020 interim results and report
- interim dividend for the half year 2020
- audit matters for the half year 2020
- risk management & internal controls
- connected transactions/continuing connected transactions
- business operation and legal updates

October - December 2020

- reporting from Audit and Risk Committee and other committees
- quarterly results
- budget for the forthcoming year
- risk management & internal controls
- connected transactions/continuing connected transactions
- business operation and legal updates

January - March 2021

- reporting from Audit and Risk Committee and other committees
- 2020 annual results and report
- evaluation of Board performance for the year 2020
- audit matters for the year 2020
- re-appointment of external auditor for the year 2021
- connected transactions/continuing connected transactions
- directors' and officers' liability insurance
- sustainability report for the year 2020
- risk management & internal controls
- corporate governance compliance
- AGM matters of 2021
- Company's policies, updating terms of reference of Audit and Risk Committee
- retirement and re-election of Directors
- business operation and legal updates

Work done by the Board in 2020 and to date

During the year 2020 and up to the date of this annual report, the Board performed, considered and/or resolved the following matters:

Policies

- reviewed the Company's policies including Board Diversity Policy, Nomination Policy, Dividend Policy, Whistleblowing Policy, Corporate Disclosure Policy, and Shareholders Communication Policy

Stakeholders

- reviewed, recommended and declared dividend payments
- reviewed investor relations program and strategies

Business and Financial Operations

- reviewed the strategic plans for the Company's core businesses to meet short-term objectives and to strengthen medium-term competitiveness
- ongoing assessment of the Company's technology capabilities, with a view to enabling the Company to reach another level of commercial success and sustainability
- reviewed new opportunities in our core business portfolio with management
- reviewed and considered the annual budget, disposals and acquisitions proposals and other significant operational and financial matters
- reviewed accounting principles and practices and approved the relevant quarterly, interim and annual results and financial statements and the related announcements
- reviewed monthly operations and financial updates, and, where appropriate, approved the related announcements (if any)
- reviewed the ESG policy
- approved and published our annual sustainability reports for the years of 2019 and 2020
- submitted resolution at the AGM for re-appointment of external auditor
- considered the proposed spin-off and separate listing of optics business

Corporate Governance

- performed the duties of corporate governance functions under Code Provision D.3.1, which included in the Board's terms of reference
- reviewed the segregation of duties between Chairman & CEO
- reviewed and evaluated the ERM system for the Group
- reviewed and evaluated internal audit reports and the effectiveness of the risk management and internal control systems over financial, operational and compliance matters

Board Committees

- reviewed terms of reference of the Audit and Risk Committee, Remuneration Committee, Nomination Committee and Board & Directors' Duties
- reviewed and approved the recommendations made by the Nomination Committee and Remuneration Committee
- considered retirement and re-election of Directors
- renewed the appropriate insurance coverage for Directors and Officers arranged by the Company

Directors' Attendance in Board Meeting, Committee Meetings & AGM

During the financial year ended 31 December 2020, the Board convened a total of six Board meetings and one AGM. Each Director is expected to attend each meeting of the Board and the Committees on which he or she serves. Directors are also expected to attend the Company's AGM or otherwise absent with a valid reason. All Directors attended the Company's 2020 AGM in person or by electronic means.

Attendance of the Directors at Board meetings, Committee meetings and AGM during the year are as follows:

Directors	Board	Audit and Risk Committee (Note 1)	Nomination Committee (Note 2)	Remuneration Committee	AGM (Note 1)
Total Number of Meetings	6	4	1	2	1
Executive Directors					
Pan Benjamin Zhengmin (CEO)	6	N/A	N/A	N/A	1
Mok Joe Kuen Richard	6	4	1	2	1
Independent Non-executive Directors					
Zhang Hongjiang (Chairman of the Board)	6	N/A	1	2	1
Au Siu Cheung Albert	6	4	N/A	2	1
Peng Zhiyuan	6	4	1	1	1
Kwok Lam Kwong Larry	6	4	1	N/A	1
Koh Boon Hwee (Retired on 15 May 2020)	2	N/A	N/A	N/A	1
Poon Chung Yin Joseph (Retired on 15 May 2020)	2	2	N/A	1	1
Non-executive Director					
Wu Ingrid Chun Yuan	4	N/A	N/A	N/A	1

Note 1: Representatives of the independent auditor participated in the Company's interim and annual Audit and Risk Committee meetings and the AGM.

Note 2: The Nomination Committee considered and reviewed the independence of independent non-executive Directors for financial year 2019.

Corporate Governance Report

Directors' Time and Directorship Commitments

All independent non-executive Directors are engaged by formal letters of appointment with a term of not more than three years, and they commit to the Company that they will be able to give sufficient time and attention to meeting the high expectations placed upon them.

Directors have disclosed to the Company the number and nature of their offices held in Hong Kong and overseas listed public companies or organizations and other significant commitments. As at 31 December 2020, none of our independent non-executive Directors, individually, held seven or more listed public companies directorship. The maximum listed companies directorship held by one independent non-executive Director is five (including the Company). Our Executive Directors do not hold directorship in other listed companies; however, they are encouraged to participate in professional, public and community organizations. The Board will regularly review the contribution required by a Director to perform his/her responsibilities to the Company and whether he/she is spending sufficient time performing his/her duties.

The Board was satisfied that the Directors had a strong commitment to the Company and positively contributed to the Board through their participation in the Company's affairs and the Board's discussions and decisions, as reflected in their high attendance record on the Board and its Committee meetings during the year.

In respect of the Directors who will stand for re-election at the 2021 AGM, their directorship held in listed public companies in the past three years will be set out in the relevant circular. Directors' biographies are on pages 28 to 34 of this Annual Report and on the Company's website.

Directors' Continuous Training and Development

In addition to attendance at meetings and review of papers and materials sent by the management, including regular legal and regulatory updates, all Directors recognized the importance of continuous professional development to ensure their contributions to the Board remains informed and relevant.

As part of the continuous professional development program, the Directors from time to time receive presentations from senior executives regarding important business matters. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings.

During the year ended 31 December 2020, the Company provided Directors reading materials, briefings and updates and training on business, operation, corporate governance regulatory development and other relevant topics. All Directors had provided to the Company records of training they received during the year. The Board is of the view that all Directors have demonstrated sufficient participation in developing and refreshing required knowledge and skills as part of the continuous professional development programme during the year. The details of all directors' participation in continuous professional development during the financial year ended 31 December 2020 are set out as follows:

Directors	Reading materials in relation to legal, regulatory & industry updates	Briefing and updates on business and operation	Training/ Seminars	Other professional developments
Independent Non-executive Directors				
Zhang Hongjiang (Chairman of the Board)	✓	✓	✓	✓
Au Siu Cheung Albert	✓	✓	✓	✓
Peng Zhiyuan	✓	✓	✓	✓
Kwok Lam Kwong Larry	✓	✓	✓	✓
Non-executive Director				
Wu Ingrid Chun Yuan	✓	✓	✓	✓
Executive Directors				
Pan Benjamin Zhengmin (CEO)	✓	✓	✓	✓
Mok Joe Kuen Richard	✓	✓	✓	✓

Audit and Risk Committee

Roles and Authority

The Audit and Risk Committee's responsibilities include the oversight of the integrity of the Company's financial statements and assisting the Board in the evaluation of management in the design, implementation and monitoring of the Company's risk management, compliance and internal control systems on an ongoing basis. The Company has a structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit and Risk Committee needs to oversee management while ensuring that it does not step into the management's role. The Audit and Risk Committee relies on management's assessment of key risks and mitigating controls at each major operating unit and on internal audit to provide an objective view on how effectively the risk assessments and controls are operating. The external auditor also provides the Audit and Risk Committee with assurance regarding the Company's financial reporting and any material weaknesses in internal control and risk management that they might come across as part of their review considered relevant to the audit.

The Audit and Risk Committee oversees the relationship and coordination among the Company, internal auditor and external auditor.

Quarterly Review and Connected Transactions

Adopting a recommended best practice in the CG Code, the Company, since the first date of listing, has been announcing and publishing quarterly financial results. That would enable our shareholders to be better informed about the performance and business progress of the Company with its quarterly reporting. The Audit and Risk Committee is involved in the review of the quarterly, half-yearly and annual results and the related announcements. It meets at least four times a year and whenever required, and meets the external auditor at least twice a year and in the absence of management at least once a year.

By its terms of reference, the Audit and Risk Committee has the power and authority delegated by the Board for reviewing any connected transactions, continuing connected transactions and conflicts of interest that may arise, and, the related monitoring compliance with the applicable rules and regulations. The Committee will also ensure strict adherence that Directors with a conflict of interest shall not vote on any related resolutions. The central role in determining, assessing and approving transactions with conflicts are undertaken by the Board and, if required, independent Board Committee comprising all the independent non-executive Directors shall be formed.

As such, every quarter, the Audit and Risk Committee will review and ensure the effectiveness of the internal control systems related to connected transactions. The identification and monitoring of the connected persons are proactively managed by senior management of the supporting services, procurement and finance departments. The implementation and renewal of this system are vouched by internal audit and external auditor. Major terms of the transactions with connected persons are contracted on a formal basis. The commercial beneficial reasons and the arm's length pricings are ascertained by internal audit and subsequently reviewed by the external auditor. The integrity of the existing accounting system will ensure the accounting accuracy and completeness of such transactions.

Audit and Risk Committee Activities

January - March 2020

- annual results and report for the year 2019
- evaluation of Audit and Risk Committee performance for the year 2019
- audit review matters from Auditor
- re-appointment of Auditors for the year 2020
- connected transactions/continuing connected transactions
- internal audit function
- risk management & internal controls
- corporate governance compliance
- sustainability report for the year 2019
- accounting policy and practices as well as any accounting estimation
- Committee's terms of reference and the Company's policies

April - June 2020

- quarterly results
- connected transactions/continuing connected transactions
- internal audit function
- risk management & internal controls

July - September 2020

- 2020 interim results and report
- basis of interim dividend for the first half of 2020
- audit review matters from Auditor
- connected transactions/continuing connected transactions
- internal audit function
- risk management & internal controls
- accounting policy and practices as well as any account estimation

October - December 2020

- quarterly results
- connected transactions/continuing connected transactions
- internal audit function
- risk management & internal controls

January - March 2021

- annual results and report for the year 2020
- evaluation of Audit and Risk Committee performance for the year 2020
- audit review matters from Auditor
- re-appointment of Auditors for the year 2021
- connected transactions/continuing connected transactions
- internal audit function
- risk management & internal controls
- corporate governance compliance
- sustainability report for the year 2020
- accounting policy and practices as well as any accounting estimation
- Committee's terms of reference and the Company's policies

During the financial year ended 31 December 2020, the Audit and Risk Committee held 4 meetings. 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.

Review of Financial Results

On 18 March 2021, the Audit and Risk Committee reviewed this annual report, including the Corporate Governance Report, the Director's Report and the Group's financial statements for the year ended 31 December 2020 and the annual results announcement with a recommendation to the Board for approval. The Audit and Risk Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2020 and internal audit plan for 2021.

Work done by the Audit and Risk Committee in 2020 and to date

During the year 2020 and up to the date of this annual report, the Audit and Risk Committee, performed, considered and/or resolved the following matters:

Financial information

- the 2019 and 2020 annual reports including the Corporate Governance Reports, the Directors Reports and the Group's financial statements for the years ended 31 December 2019 and 2020 and the annual results announcements, with recommendations to the Board for approval
- the 2020 first quarterly results including the Group's first quarterly financial statements for the three months ended 31 March 2020 and the relevant results announcement, with a recommendation to the Board for approval
- the 2020 interim report including the Group's interim financial statements for the six months ended 30 June 2020 and the interim results announcement, with a recommendation to the Board for approval
- the 2020 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30 September 2020 and the relevant results announcement, with a recommendation to the Board for approval
- the Group's tax review report carried out by an independent professional firm for the year 2019
- reports on new investments of the Group
- compliance by the Company with the Code Provisions throughout the year ended 31 December 2019 and throughout the six months ended 30 June 2020
- the Company's compliance with the Hong Kong Listing Rules, the Companies Act of the Cayman Islands, the CO and the SFO
- overall compliance with Recommended Best Practices of the CG Code and other legal and regulatory compliance matters

External Auditor

- the reports and management letters submitted by external auditor, which summarized matters arising from the audit on the Group for the years ended 31 December 2019 and 2020, including auditing, accounting and tax matters, and internal controls, together with management's progress in addressing matters raised, and the confirmation from external auditor that there were no high-risk matters identified which were not satisfactorily resolved or being addressed
- the audit fees payable to external auditor for the year ended 31 December 2019 and external auditor's scope, plan and fees for the year ended 31 December 2021 with a recommendation for approval by the Board
- the effectiveness of the external auditor giving due consideration to the quality and contents of their reports to the Audit and Risk Committee, feedback from management and compliance with relevant regulatory, professional requirements and their independence, with a recommendation for their re-appointment for the financial year 2020, subject to final approval by Shareholders (approved on 15 May 2020)
- the safeguard of external auditor objectivity and independence in proposed engagement in respect of audit-related and permissible non-audit services; met with the external auditor and discussed the audit report to management
- recommendation of re-appointment of external auditor for Shareholders' approval in 2020 and 2021 AGM

Risk Management and Internal Controls	• the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function, and that of the Group's Internal Audit • the quarterly reports from Internal Audit and alignment with ERM • the IT and cyber risks referencing COBIT (Control Objectives for Information and Related Technology) • the effectiveness of the independent professional firm's internal control assessment and its co-sourcing arrangement with the Group's Internal Audit • the risk management system including the established ERM framework • the internal controls reviewed by Internal Audit with regard to Connected Transactions and Continuing Connected Transactions • the whistleblowing reports and the related follow-up process to ensure all matters of concerns were addressed • the Committee's updated terms of reference and the Company's policies, including Corporate Disclosure Policy and Shareholders Communication Policy

Nomination Committee

Board Diversity

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance, and has adopted a board diversity policy which is available on the Company's website. A truly diverse Board will include and make good use of differences in the knowledge, skills, business perspectives, geographic and industry experience, culture, background, ethnicity, independence, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition and complementary of the Board. All Board appointments will be based on meritocracy while taking into account diversity including gender diversity.

Selection of candidates will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, business perspectives, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board and the strategic success of the Company.

Our Directors are from diverse and complementary backgrounds. Their valuable experience and expertise are critical for the long-term growth of the Company. The current Board's composition under diversified perspectives is summarized as follows:

Name		Pan Benjamin Zhengmin	Mok Joe Kuen Richard	Zhang Hongjiang	Au Siu Cheung Albert	Peng Zhiyuan	Kwok Lam Kwong Larry	Wu Ingrid Chun Yuan
Gender		Male	Male	Male	Male	Male	Male	Female
Age		52	57	60	69	48	65	50
Academic Background		Graduated from the Jiangsu Province Wujin Teacher School	Bachelor of Economics	Ph.D in Electrical Engineering Bachelor of Science	Bachelor of Commerce	Master of Business and Administration Bachelor of Engineering and Finance	Master of Laws Bachelor of Economics/ Accounting	Graduated from Changzhou School of Public Health
Length of service		15 years	15 years	2 years	3 years	2 years	3 years	15 years
Skills, knowledge & professional experience	(a) Accounting & Finance		✓		✓	✓	✓	✓
	(b) Corporate Responsibility/ Sustainability		✓			✓	✓	✓
	(c) Executive management and leadership skills	✓	✓	✓	✓	✓	✓	✓
	(d) Financial Service		✓		✓	✓	✓	
	(e) Human Resources		✓					✓
	(f) Information Technology & Security			✓				
	(g) Investment Banking	✓				✓	✓	✓
	(h) Investor Relations	✓	✓			✓		
	(i) Legal		✓				✓	
	(j) Other listed Board Experience/Role			✓	✓		✓	✓
	(k) Risk Management		✓		✓	✓	✓	
	(l) Strategic Planning	✓		✓	✓		✓	
	(m) Technologies & Manufacturing	✓	✓	✓				✓

The Nomination Committee reviewed the Board's composition under diversified perspectives and monitored the implementation of the Board Diversity Policy and considered that the said policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

Roles and Authority

The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the composition, structure, size and diversity of the Board, the appointment and re-appointment of Directors and the assessment on independence of INEDs and ensuring the proper and transparent procedures for the appointment and re-appointment of Directors, succession planning for the chief officers. The Committee is also consulted upon the hiring, promotion and appointment of senior management.

Nomination Policy & Practice

The Company has adopted a nomination policy for setting up a formal, considered and transparent procedure to help identifying and nomination of candidates for Directors. All valid nomination of candidates, accompanied with details of their biographical backgrounds, would be presented to the Board for consideration as soon as practicable. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Company's business. It is believed that members of the Nomination Committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

Process for appointing a Director

Shareholders

- Approve the election or re-election of Directors at the Company's general meeting.

Proposed Director

- Appointment is considered as an individual resolution at the general meeting.

Board

- Approve the appointment.
- Appointment made through a formal letter.
- On a term of not more than three years.

Newly appointed Directors:

- Subject to re-election by Shareholders at the first general meeting following the appointment.

Existing Directors:

- One-third of existing Directors are subject to retirement by rotation every year, and the retiring Directors are eligible for re-election.

Nomination Committee

- Considers the candidates based on merit having regard to the experience, skills and expertise as well as the overall board diversity.
- Makes recommendations to the Board as appropriate.

Interviews with candidates

Identification of candidates

Evaluation of the Board composition and establishment of desired criteria for prospective directors

Nomination Committee Activities

January - March 2020

- review of the structure, size and composition of the Board and Board Diversity Policy
- evaluation of Nomination Committee performance for the year 2019
- assessment of independence of the INEDs
- recommendation to the Board on re-election of retiring Directors

October - December 2020

- approvals for nominating the Chief Financial Officer and the Executive Vice President

January - March 2021

- review of the structure, size and composition of the Board and Board Diversity Policy
- evaluation of Nomination Committee performance for the year 2020
- assessment of independence of the INEDs
- recommendation to the Board on re-election of retiring Directors

Work done by the Nomination Committee in 2020 and to date

During the year 2020 and up to the date of this annual report, the Nomination Committee convened one meeting and by written resolutions to perform, consider and/or resolve the following matters:

Directors' Independency

- reviewed and assessed the regular updates submitted by the Directors on their commitments to other listed and/or public companies or organizations, their personal and any other business interests, and, any circumstances that may affect independence status of the INEDs

Board Composition

- reviewed the Board composition to ensure that the Company meets the Board Diversity Policy and requirements under the Hong Kong Listing Rules
- reviewed its terms of reference such that the Directors comprise a wide range of business, operations, technology, financial and legal experience, and, based on diversity perspectives, come from different gender, age, cultural and educational background, ethnicity and varied lengths of service at the Company

Appointment, retirement and re-election of Directors	• reviewed and recommended to the Board the terms of appointment of the non-executive Directors (including INEDs), which are set out in the "Directors and service contracts" section of the "Directors' Report" on pages 38 to 39 of this annual report • reviewed and agreed the annual list of retiring Directors in relation to the requirement set out in the Articles and in compliance with the Code Provision A.4.2, which all Directors (including executive Directors, non-executive Director and INEDs) are subject to retirement by rotation at least once every three years • reviewed change on composition of the Board committees after conclusion of AGM held on 15 May 2020. The Nomination Committee is of the view that the balance of the new structure, size, composition and diversity of the current Board is adequate to its effective performance

Directors' Biographical Information

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 28 to 36 of this annual report. Except for the family relationship between Mr. Pan and Ms. Wu, as disclosed in Directors' biographical information on pages 28, 34 and 36 of this annual report respectively, there is no financial, business, family or other material relationship between any members of the Board, and, in particular, between the Chairman and the CEO.

Remuneration Committee

Roles and Authority

The principal responsibilities of the Remuneration Committee are to advise the Board in relation to the overall remuneration policy and structure of the executive Directors and senior management, and to review the fees and remuneration of the Chairman and other non-executive Directors prior to the AGM. In addition, the Remuneration Committee considers management recommendation for key terms of new compensation and benefits plans and reviews management's remuneration proposals with reference to the Board's corporate goals and objectives.

Remuneration Committee Activities

January - March 2020

- review of the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board
- evaluation of Remuneration Committee performance for the year 2019
- review of the existing non-executive Directors' remuneration
- review of the Group performance for 2019 and Group targets for 2020
- review of senior executive remuneration, including annual incentive payments for 2019 and 2020 and annual pay review for 2020
- recommendation of the above to the Board for approval

October - December 2020

- review of the remuneration of senior management, inducting those of the executive Directors

January - March 2021

- review of the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board
- evaluation of Remuneration Committee performance for the year 2020
- review of the existing non-executive Directors' remuneration
- review of the Group performance for 2020 and Group targets for 2021
- review of senior executive remuneration, including annual incentive payments for 2020 and 2021 and annual pay review for 2021
- recommendation of the above to the Board for approval

Work done by the Remuneration Committee in 2020 and to date

During the year 2020 and up to the date of this annual report, the Remuneration Committee convened two meetings and by written resolutions to perform, consider and/or resolve the following matters:

Terms of Reference

- reviewed its terms of reference

Remuneration and Performance

- reviewed the remuneration package of executive Directors, non-executive Directors and senior executives and their incentive payments and assessed their performance for the years of 2019 and 2020
- reviewed the Group performance for 2019 and 2020 and Group targets for 2020 and 2021

Directors & Senior Management' Remuneration

The Remuneration Committee has adopted Code Provision B.1.2(c)(ii) to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Hong Kong Listing Rules are set out in note 9 to the financial statements.

Director Compensation Arrangements

Non-employee Directors receive only cash compensation. Directors who are employed by the Company do not receive any additional compensation for their Board service. INEDs may not receive consulting, advisory, or other compensatory fees from the Company in addition to their Board compensation.

The compensation amounts of the Directors are reviewed on an annual basis and recommended by the Remuneration Committee and approved by the Board, having regard to the individuals' qualifications, experience, responsibilities and comparable market benchmarks. No Director takes part in any discussion on his/her own remuneration.

The current non-employee Directors' remuneration was increased on 1 January 2018 and the following table sets forth, by responsibilities for their Board service, the annual Directors' fees paid in cash to non-employee Directors during the fiscal year ended 31 December 2020:

Director Compensation Retainers	
Annual Director Retainer	US$60,000
Chairman of the Board Annual Retainer	US$85,000
Audit and Risk Committee Chairman Annual Retainer	US$50,000
Audit and Risk Committee Member Annual Retainer	US$25,000
Nomination Committee Chairman Annual Retainer	US$9,000
Nomination Committee Member Annual Retainer	US$4,500
Remuneration Committee Chairman Annual Retainer	US$9,000
Remuneration Committee Member Annual Retainer	US$4,500

The Company reimburses non-employee Directors for all reasonable out-of-pocket expenses incurred for attending Board and Committees meetings.

Group Emoluments Arrangement

The emoluments of the Group including senior management team are considered having regard to their qualifications, experience, responsibilities, comparable market benchmarks, the Company's operating results and individual performance. In particular, the emoluments of the senior management team are reviewed and recommended by the Remuneration Committee and approved by the Board.

The remuneration of members of the senior management by band for the year ended 31 December 2020 is set out below:

Remuneration bands	Number of individuals
HK$2,000,001-HK$2,500,000	1
HK$2,500,001-HK$3,000,000	1
HK$3,000,001-HK$3,500,000	2
HK$5,500,001-HK$6,000,000	1

Directors' and Officers' Insurance

The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding offices as the Directors and officers of the Group. The Directors and officers shall not be indemnified where there is any negligence, fraud, breach of duty or breach of trust proven against them.

Share Award Scheme

The Company on 23 March 2016 adopted the Scheme constituted by a Trust Deed between the Company and the Trustee, in which employees, including Directors, may be selected by the Board to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the Trustee.

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

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

During the year, no new shares have been issued to the Trustee and no shares of the Company had been purchased by the Trustee nor any share awards had been granted to any employees.

CORPORATE GOVERNANCE CODE

The Company has continued to fully comply with requirements of the Code Provisions for the financial year ended 31 December 2020. The Board has ensured that all Board Committees were represented through the Directors in attendance at the AGM to answer questions that might be raised. To ensure a balanced understanding of the views of Shareholders is maintained by all INEDs, the Company provides regular Shareholders' feedback from the Company's investor relations reports.

The Company has always aimed to go beyond compliance with the Code Provisions by adopting the Recommended Best Practices of the CG Code. The table below illustrates how and in what way the Company has already adopted these items:

Recommended Best Practices	Adopted by the Company
Quarterly financial results announcement	Since listing, the Company has adopted quarterly reporting of financial results. p.60 has more details.
A significant proportion of the executive Directors' remuneration should link rewards to corporate and individual performance	A significant proportion of an executive Director remuneration has been correlated to corporate and individual performance since his appointment. p.50, 70 and 129 have more details.
Whistleblowing Policy for employees and other stakeholders (e.g. customers and suppliers)	A whistleblowing policy and an established process have been in place since 2012 to ensure all matters of concerns are addressed. p.76 – 77 have more details.
Regular Board Evaluation	The Board conducts an annual evaluation of its and the committees' performance. p.53 has more details.
Management's confirmation on the effectiveness of risk management and internal control systems	The Board has received confirmation from management on a semi-annual basis. p.73 has more details.

LEGAL AND REGULATORY COMPLIANCE

Compliance

During the year, the Board continued to review the Company's legal framework on implementing policies and practices to ensure the operations of the Company are in compliance with existing or any new legal and regulatory requirements of all applicable jurisdictions, including updates of the Hong Kong Listing Rules and disclosure requirements under the Hong Kong Securities and Futures Ordinance, the Companies Act of the Cayman Islands as well as Hong Kong Companies Ordinance.

The Company seeks to abide strictly by the governing laws and regulations of the jurisdictions where it operates through its subsidiaries or branches and observes the applicable guidelines and rules issued by regulatory authorities.

Dividend Policy

In deciding whether to declare a dividend and in determining the amount and form of dividend, the Board shall take into account the following factors:

– Financial performances;
– Working capital;
– Capital expenditure;
– Future investment; and
– Any other factors the Board may deem relevant.

The Company considers sustainable returns to its Shareholders to be its goal, and, endeavors to declare dividends twice in each financial year, i.e. as interim dividend and final dividend. In addition to the aforesaid factors, the Board shall take into account the Company's prospects, historical dividend amounts and dividend yields. Nevertheless, there is no assurance that dividends will be paid in any particular amount for any given period.

Declaration and payment of dividends are subject to compliance with applicable laws and regulations including the law of Cayman Islands and the Company's Articles and, dividends received from its subsidiaries.

The Board will continually review this policy for the long-term interests of the Shareholders from time to time.

Model Code For Securities Transactions by Directors

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 as mentioned in Appendix 10 to the Hong Kong Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31 December 2020. Furthermore, the Nomination Committee has reviewed and assessed the information submitted by the Directors and is of the view that the Directors are in compliance with the required standard.

Securities Dealing Restriction to Management and Staff

Our Management and staff are subject to the Company's securities dealing restrictions for those who have access to potential inside information.

COMPANY SECRETARY

All Directors have access to the advice and the professional services of the Company Secretary. Mr. Lo Tai On ("Mr. Lo"), from our external secretarial services provider, served as the Company Secretary from August 2010 to March 2020. The primary contact person of the Company with Mr. Lo during his tenure as Company Secretary in 2020 was Mr. Ho Siu Tak Jonathan, who is the legal director of the Group and has subsequently been appointed as Company Secretary with effective from 25 March 2020. In addition to company secretarial matters of the Company, the Company Secretary is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors. The Company Secretaries of the Company have duly complied with the relevant training requirement under Rule 3.29 of the Hong Kong Listing Rules.

INTERNAL AUDIT, 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 ERM framework to effectively identify, assess, mitigate and monitor key strategy, 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 governance framework is illustrated as follows:

Governance Framework — Internal Control & Risk Management Process

Role	Accountability/ In Charge	Responsibilities
"Top-down" Identification & management of strategic and business risks at corporate level	**Board**	**Risk Management Oversight** • Oversees the Company's risk management policies and process. • Determines the nature and extent of the outstanding and newly emerging risks. • Reviews that the Group has maintained effective and adequate risk management and internal control systems and ensures that all processes are properly carried out.
	Audit and Risk Committee assisted by Internal Audit	**Regular Risk Review, Communication & Confirmation to the Board** • Conducts quarterly reviews with management the Company's major financial and regulatory risk exposures and the steps management has taken to monitor and control such exposures. • Evaluates the management's effectiveness in the design, implementation and monitoring of the internal controls and ERM. • Reviews the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions and ensure these functions were maintained properly. • Oversees the Company's risk profile and assesses if key risks are appropriately mitigated. • Ensures that an ongoing review of the effectiveness of the risk management and internal control systems has been conducted and provides such confirmation to the Board.
"Bottom-up" Risk assessment, monitoring and effective communication through operation units / departments Identification, management & report of risks at operation level	**Heads of departments along with verification by Internal Audit**	**Risk & Control Monitoring** • Identifies, assesses and manages the significant operating risks facing the Company. • Monitors the risk management and internal control systems and implementing new controls.
	Business / Operation Units	**Operation Risks & Internal Controls Ownership** • Risk identification, assessment and mitigation performed across organization's various departments. • Risk management process and internal controls practised across organization's business operations and functional areas.
Independent party	**External professional firm**	• Reports and discusses with the Audit and Risk Committee any weaknesses in the internal controls of the accounting and, operating systems revealed by the specified scope of their work.

Risk Governance & Oversight

The Company has always valued the importance of the internal control system, and has been referencing certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by COSO. Internal Audit has incorporated these critical aspects in its audit planning and objectives when assessing the effectiveness of internal controls. Also, Internal Audit has already included in its work scope to cover financial reporting objectives and has increased focus on operations and compliance aspects. IT audit focuses on IT and information security risks in respect of strategy, operations, compliance, reputation and infrastructure. Report of the evaluation and implementation of such information security plans, policies and processes are discussed quarterly, and modified as appropriate, by the Audit and Risk Committee. With reference to COBIT framework, the Company continued to enhance its cyber risk vulnerability controls management through various policies updates and employees training and again received the certification of ISO27001. On the basis of the evaluation carried out by Internal Audit during the year, management has formed the conclusion that, for the financial year ended 31 December 2020, the Company's internal controls over the Company's financial and non-financial reporting were effective.

It is recognized that the assessment of the internal control systems is an on-going process which will require applications of underlying principles to the different objective categories in the changing business and operating environments. In particular, management enhancements are required to address deficiencies in internal controls over operations, compliance, financial and non-financial reporting. Meanwhile, the internal audit plan will continue to be based on a risk-based approach aligned with organizational objectives and, to some extent, stakeholder priorities.

Within the Group, there is a clearly-defined management structure with specified authority limits and segregated responsibilities to achieve business control objectives and safeguard of assets. Guidelines and approval limits for operating (including research and development) and capital expenditure are set clearly. They include division of operations and financial personnel to be responsible for the different approval processes. An internal system has been implemented to enhance the controls and effectiveness embedded in the approval process. A separate finance team is designated to ensure maintenance of proper and complete accounting records by all the Group companies for producing reliable financial information for internal management use. Regular review of the financial information involving senior management and the Board is carried out for verification and monitoring purposes.

The internal audit team also provides independent assurance that the internal control system is effective and efficient. In order to carry out its function, the internal audit team is given unrestricted access to all the personnel, business files and accounting records. The head of the team reports directly and regularly to the Audit and Risk Committee on all the significant audit matters. Adverse implications from such findings on the accuracy and completeness of the financial report and the effectiveness of the internal control systems are discussed in details by the Audit and Risk Committee and rectified within a reasonable timeframe.

Key risk factors are set out on pages 25 to 27 of this annual report. The procedures and internal controls for the handling and dissemination of inside information are set out under the below section headed "Corporate Disclosure and Inside Information" of this annual report.

Enterprise Risk Management

Since 2012 the Company has embarked on the journey of building an ERM system with a view to enhancing the risk management and corporate governance practice and improving the effectiveness and efficiency of internal control systems across the whole Company. In 2020, the Company has procured and allocated sufficient resources, including external professional resources, to continue to refine ERM and the risk-driven approach for its internal audit plan. Relevant departments, assisted by the additional resources, conducted reviews and updates on risk assessment and internal controls by key management processes. The Board believes that a heightened focus on risk and compliance is beneficial for the ongoing development and growth of the Company as well as its staff. In establishing the ERM system, all key functions of the Company undertake the following exercises:

1. ERA — to identify and prioritize the Company's key business risks; and

2. Process level control assessment — to assess the related internal control matters and risk mitigating measures.

The ERA is designed to be an efficient and comprehensive process which assists management in accomplishing the following ERA objectives:

- Allows management to identify and prioritize the key risks affecting the achievement of the Company's business objectives;
- Assesses how those key risks are currently being managed and identifies areas where potential gaps and inefficiencies may exist;
- Identifies opportunities for improvement; and
- Allows management to develop a coordinated and systematic approach to embed risk management activities into the daily operations, including planning, investment and strategic decisions, so as to better balance risk and enterprise reward.

Effectiveness Review of Risk Management and Internal Control Systems

The review of the effectiveness of the Company's risk management and internal control systems has been discussed on pages 72 to 74.

EXTERNAL STATUTORY AUDIT

The Directors acknowledge responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2020, the Directors have selected suitable and applied consistent accounting policies, made reasonable judgments and prudent estimates in preparing the Financial Statements on a going concern basis. Reporting responsibilities of the external auditor of the Company are set out on pages 87 to 88 of this annual report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the Financial Statements for the year ended 31 December 2020 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Hong Kong Listing Rules. Furthermore, the Directors are aware of the responsibility for keeping proper accounting records which could provide the financial position of the Company with reasonable accuracy at all times.

Auditor's Remuneration

The Company's external auditor is Deloitte. Deloitte has confirmed to the Audit and Risk Committee that they are independent with respect to acting as external auditor to the Company. Deloitte will not be engaged for any non-audit work unless the non-audit work meets the criteria suggested in the Hong Kong Listing Rules and HKICPA's Code of Ethics for Professional Accountants and has been discussed and pre-approved by the Audit and Risk Committee.

On completion of their annual audit, Deloitte will review its audit work process and plan for the next year's audit. A proposed audit fee and work plan, incorporating expansion plans, new business operations and organization changes of the Company, will be submitted to the Audit and Risk Committee. Their proposal will also be reviewed along with internal management feedback on Deloitte's audit work and the appointment of auditor will be discussed and recommendation made to the Board.

During the year ended 31 December 2020, the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Types of service	2020 HK$'000
Annual audit – Group audit	3,807
Annual audit – Overseas	465
Interim review	952
Total fees	5,224

The representative of Deloitte has attended the AGM of the Company in 2020 as usual to answer questions from Shareholders.

The Company has also adopted a policy of not hiring employees of the external auditor who are or have been involved in the Company's audit so as to ensure no impairment of the auditor's judgment and independence with respect to its auditing. This policy has been strictly complied with since the auditor's appointment.

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

The Company recognizes that employees form an integral part of the risk management and internal control systems of the corporate structure. On joining the Company, all employees are encouraged to study and keep abreast of the Company's expectations regarding their duties and integrity as spelt out in the Staff Compliance Manual and the Code of Ethics. The manual and the code set out the guiding principles to do what is right, behave with integrity and honesty and treat other colleagues fairly, respect diversity and observe legal regulations, accept accountability, communicate openly appropriately and always behave in a manner that is beyond reproach.

The Company upholds ethical principles through the business ethics monitoring system led by the Ethics Committee which is chaired by the CEO. Our ethics working groups involve human resources, legal and internal audit departments, reporting and handling any cases of unethical behavior and evaluating the management system.

To build into a system where there are checks and balances such that no single party could 'dictate/control' a transaction, activity or process to conceal irregularities, the Company recognizes that it is necessary to provide an environment and a system where employees could feel free to report concerns to management. The Whistleblowing Policy, already approved by the Board is a key constituent of our Code of Ethics, where employees are encouraged to raise concerns in confidence about misconduct, malpractice of matters related to the Company. The various reporting channels are already clearly stated in the Code of Ethics. "Whistleblowers" are assured of protection against unfair dismissal, victimization or unwarranted disciplinary action. To facilitate the implementation of the policy, the various reporting channels, the filing of the reporting documentation and the investigation report are laid out clearly. The Audit and Risk Committee has been delegated with overall responsibility for implementation, monitoring and periodic review of the policy.

During the year, the Company received 46 reported cases. No senior management staff were involved in these cases and these cases were mainly minor one-off incidents involved with employee discipline, workshop and administrative management, engaging in malpractice/frauds and staff violations. Necessary follow-up actions have been implemented through relevant departments as well as carry out disciplinary actions, in order to prevent reoccurrence of similar cases.

SHAREHOLDERS ENGAGEMENT AND VALUE

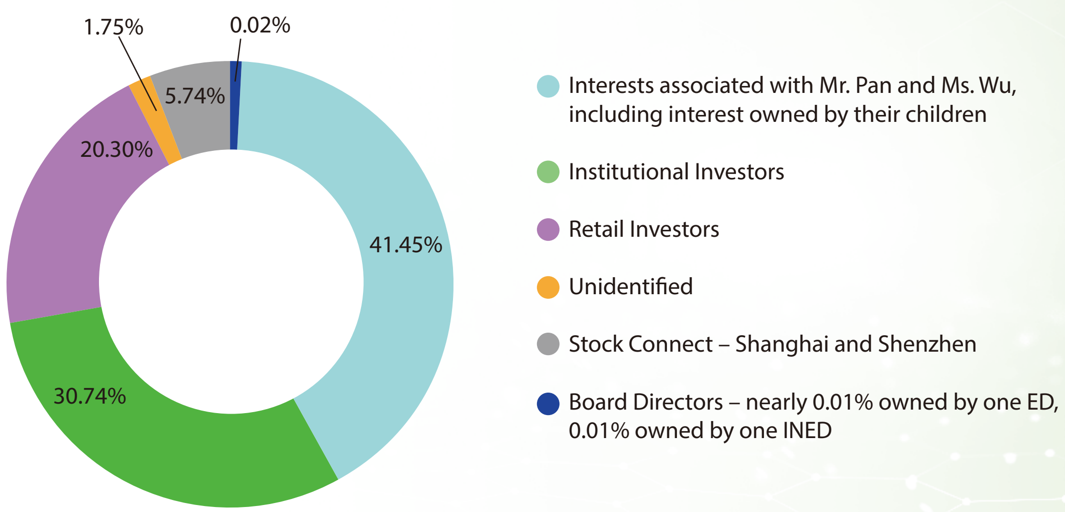
Shareholders

Almost all the Shareholders are holding the Company's shares through nominees or intermediaries such as HKSCC Nominees Limited. Hence, the register of members of the Company only had 91 direct registered Shareholders as at 31 December 2020. Separately, as the Company's shares are eligible for trading in the Shanghai/Shenzhen-Hong Kong Stock Connect, an aggregate shareholding was held through China Securities Depository and Clearing Corporation Limited as one single Shareholder, which as at 31 December 2020, amounted to 69.34 million shares, or representing 5.74% of total issued shares, of the Company.

The Company analyses its shareholding structure on a regular basis, including a review of the register of institutional and retail investors, to keep track of changes in shareholdings by type of investors. A shareholding register analysis was conducted as at 31 December 2020 and revealed the shareholding structure as follows:

I) Shareholders by Category:

(per Shareholder Analysis as at 31 December 2020, rounded to nearest 0.01%)



II) Shareholders by Domicile:

	% of Total Issued Shares
Hong Kong	71.4
North America	9.1
China	5.9
Singapore	5.5
United Kingdom	3.0
Rest of the World	2.8
Europe (ex-United Kingdom)	2.3
Total	100

Notes:

1. The shareholding in Hong Kong included the interests associated with Mr. Pan, Ms. Wu and their children.

2. 99.99% of all issued shares were held through HKSCC Nominees Limited.

3. The approximate percentage of shareholding is calculated on the basis of 1,208,500,000 shares in issue as at the financial year ended 31 December 2020.

Corporate Disclosure and Inside Information

The Board recognizes the significance of establishing procedures and internal controls for handling and disseminating inside information about the Company on a timely, accurate and complete basis. The Audit and Risk Committee and the Board have reviewed and updated our Corporate Disclosure Policy to ensure that the continuous disclosure standards and procedures are in compliance with the requirements of the Hong Kong Listing Rules, Securities and Futures Ordinance and applicable laws and regulations of the Cayman Islands and the Hong Kong Companies Ordinance, including the "Inside Information" legislation. The procedures and practices are to ensure that "Inside Information" can be escalated up within the organization and appropriate decision is made to decide if an announcement should be made. In this respect, the policy has defined "Inside Information" and the principles of disclosure so that the public and the investment community are able to appraise the position of the Company and its stock market activity where the shares of the Company are traded.

To facilitate the process, a Disclosure Committee has been formed and meets when necessary. Designated spokespersons are appointed with well-defined responsibilities of communicating and monitoring information disclosure to Shareholders, the investment community and the media, if appropriate.

Communications with Shareholders and Investment Community

The Company has established a Shareholders Communication Policy which sets out various formal channels of communication with Shareholders. The transparent and comprehensive disclosure of the Company's performance and activities is to ensure that its Shareholders and the investment community are provided with good and timely access to balanced, understandable and updated operating information about the Company, such as its financial performance, strategic goals and plans, material developments, governance and risk profile, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

A number of formal communication channels are used. These include the annual report, interim report, announcements through the Stock Exchange platforms, circulars and press releases of the Company. The Company also updates its website, www.aactechnologies.com, and IR wechat group, regularly to ensure prompt dissemination of information about its latest development.

AGM is another means to enter into a direct dialogue with Shareholders. Board members (including the Chairman), in particular, the Chairmen or members of all committees or their delegates, and a representative (usually the engagement partner) of the external auditor attend to answer Shareholders' questions.

In addition, the Company strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in ongoing dialogue with Shareholders and the investment community to keep them abreast of the Company's latest development strategy, business management, financial information and business progress.

The Company's investor relations team is committed to meeting Shareholders' and investment community's requests on communicating business-related information in a timely manner, and to proactively communicate with the investment community. This is designed to ensure the Company's strengths and competitive advantages, as well as its ability to manage changes in the business environment, are fully understood and hence reflected in the Company's market valuation. The investor relations team also submits a monthly report, as part of the monthly update, to the Board to keep the Board informed of the latest perceptions in the market regarding the Company and the issues of concern to Shareholders and the investment community.

As part of the process in dealing with "Inside Information", the investor relations team observes "Quiet Periods" that begin one calendar month prior to the announcements of its quarterly, interim and annual financial results to avoid the potential for selective disclosure or its perception of doing so. During the Quiet Periods, there will not be any IR-related access to senior management. The Corporate Disclosure Policy, Shareholders Communication Policy and "Quiet Periods" policy are all posted on the Company's website.

During 2020, the Company held a series of activities in relation to its quarterly, interim and annual results announcements, including panel discussions with Shareholders and the investment community via webcast/teleconferencing and participation in different conferences, forums and virtual non-deal roadshows in Hong Kong and other parts of the world organized by different brokers. This helps the Company meet the goal of establishing sound relationships with Shareholders and the investment community and maintaining a solid and diverse Shareholder base. Furthermore, there are regular sessions held with local-based securities brokers, the local and overseas press and media representatives for timely distribution of information to non-institutional investors.

At the 2020 AGM which was held on 15 May 2020, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of a retiring Director. Procedures for conducting a poll were explained by the Chairman at the meeting. The chairman of the Board and members of Board Committees were joint by video conference or in person, prepared to answer questions, if any, from Shareholders. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Hong Kong Listing Rules on the same date. No other general meeting was held during the year.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an EGM. Set out below are procedures by which Shareholders may (a) convene an EGM; (b) put forward enquiries to the Board; and (c) put forward proposals at general meetings. The procedures are subject to the Articles and applicable legislation and regulation.

Procedures for Shareholders to Convene EGM

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the business to be transacted at the meeting, signed by the requisitioner and deposited at the Company's principal place of business in Hong Kong or the Company's registered office for the attention of the Board or the Company Secretary, and may consist of several documents in like form, each signed by one or more requisitioners. The requisition will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the requisition has been verified as invalid, the requisitioners will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitioner(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the requisitioner(s) concerned at the EGM varies according to the nature of the proposal, as follows:

- Not less than 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and

- Not less than 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company.

Procedures for Putting Enquiries to the Board

Shareholders may, at any time, direct enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email to aac2018@aactechnologies.com for investor relations team to follow up.

Procedures for Putting Forward Proposals at General Meetings

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written request, duly signed by the Shareholder concerned, setting out the proposals at the Company's principal place of business in Hong Kong for the attention of the Board or the Company Secretary. The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary will pass the request to the Board. Whether a proposal will be put to a general meeting will be decided by the Board in its discretion, unless the proposal put forward by a Shareholder is (a) pursuant to a requisition by a Shareholder to convene an EGM referred to above or (b) forms part of ordinary business to be considered at an AGM as described in the Articles.

The procedures for Shareholders to propose a person for election as Director are posted on the Company's website at www.aactechnologies.com.

Constitutional Documents

During the year ended 31 December 2020, certain amendments were made to the Articles. Please refer to the announcement and the circular of the Company both dated 14 April 2020 for details. An up-to-date consolidated version of the Articles is available on the websites of Stock Exchange and the Company.

Sustainability

SUSTAINABILITY

Challenges emanating from external environment do not slow down our efforts for sustainable development. Restructuring of the Group centering upon business segments is a strategic move that aims for long-term sustainable growth. This creates opportunities for refining sustainability management and adding more value to the Group, the environment and stakeholders by unlocking the potential of each product line to become more eco-friendly and future-proof, and for building a collaborative and innovative culture. Together with the Sustainability Working Group (SWG) established during the year, the Board oversight of ESG risk management was further strengthened, providing effective leadership for formulating and disseminating sustainability strategies to operations on the ground.

The Group acted swiftly in fighting against COVID-19 pandemic. To safeguard well-being of our employees and for ensuring speedy recovery of daily operations, we set up a pandemic prevention task-force to manage the anti-pandemic effort holistically. Apart from stringent pandemic prevention and control measures, we made targeted arrangements for human resources and manufacturing management to minimise the potential adverse impact to employees well-being, overall production capacity and product quality. The Group also supported the community during the difficult times by making donations to medical staffs and suppliers.

ENVIRONMENTAL MANAGEMENT

With all manufacturing bases in China and Vietnam certified under the ISO14001 standard, the Group not only fulfils the environmental compliance requirements at these locations, but also strives to go beyond the bare minimum. The Group has been striving to achieve sustainability performance beyond compliance by collaborating with its customers, on initiatives such as Zero Waste to Landfill and Clean Water Programme. Both projects have made positive progress. Two of our production plants in Changzhou have successfully received Zero Waste to Landfill validation of Platinum level by Underwriters Laboratories (UL), achieving 100% waste diversion. Water risk assessment was completed at the Shenzhen plant, paving the way for better water management and usage.

Sustainability

Responding to the call for climate action by the PRC government, we have prioritised the use of clean energy, working towards the target of achieving over 75% clean energy by 2030. We have begun shifting to electric trucks and employee shuttles buses in Shenzhen during the year, while photovoltaic solar power is being generated at Changzhou and Shuyang, output being 14.8 million kWh in 2020. We have also expanded the scope of clean production audits to further identify energy-saving opportunities.

During the year, six mandatory National Standards of Volatile Organic Compounds (VOCs) became effective and the Law on the Prevention and Control of Environmental Pollution by Solid Waste was amended. Thanks to the ongoing monitoring of emerging environmental rules and regulations in Mainland China, we were able to formulate and implement environmental management initiatives embracing the regulatory changes effected by the new rules.

The Group strictly complies with environmental laws and regulations at all our operating locations. Measures to ensure compliance include internal controls and approval procedures and training and oversight of various business units by way of performance evaluation by commissioned third-party agencies.

During the year, there were no material non-compliance of laws and regulations that have a significant environmental impact relating to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

STAKEHOLDER ENGAGEMENT

A strong and stable relationship with stakeholders is a key strategic differentiator. We have conducted stakeholder engagement during the year to understand thoroughly their expectations regarding sustainability issues. Together with further analysis of our environmental and social impact, we prioritised the material topics according to the potential risks and opportunities along the entire value chain. This enables the Group to address stakeholder concerns and create sustainable value at various stages of operations.

Employees

The fast-paced operating environment of the industry has created a lasting impact on the Group's talent acquisition and retention. We have structured the team to make sure they fit in with the next-generation manufacturing processes. A performance tracking system and agile management are key approaches to motivating employees, supporting them to unleash their fullest potential through performance benchmarking and flexible project management methods. Position-specific career development opportunities, such as training, job rotation and rewards are in place to identify and cultivate the right kind of talents.

The Group has continued to digitalise its communication channels and human resources services to improve employee experience. The mobile office platform and an online learning platform were launched during the year, making it more convenient for employees to handle HR related matters and facilitating self-paced learning. Alongside the renewed grievance redressal system, we aim to boost efficiency and quality of talent management and maintain employee satisfaction.

Customers

Customers have, as expected, increasingly demanded quick response given the short product life cycle in the smart devices industry. Maintaining and strengthening customer satisfaction and trust relies on daily data tracking, regular evaluation and customer visits. Multiple departments such as customer service and quality control collaborate to evaluate data and feedback, translating customer needs and expectations into clear company requirements. Customer grievances are managed by a dedicated team to ensure swift response in a manner in which customers can scrutinise the data concerning product quality.

We are working closely with our customers to ensure our products conform with their requirements. To achieve that, we maintain transparent communication with customers covering raw material sourcing, design, testing and quality management, which helps maintain superior product quality.

Sustainability

Suppliers

Embracing the new rules and regulations on Volatile Organic Compounds (VOC) and solid waste, we collaborate with suppliers for managing VOC emissions, providing training and formulating management systems. Our Supplier Code of Conduct stipulates clearly the Group's expectations of its suppliers in the context of legal compliance, labour and human rights, health and safety, and chemical and emergency management. The Code makes reference to international standards including SA8000. All suppliers are subjected to due diligence. They are assessed regularly and the management approach is evaluated on a regular basis through daily management, annual audit, comprehensive performance evaluation and risk management, ensuring supplies do not contain any conflict minerals.

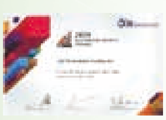
Key Highlights in 2020

Generated 14.8 million kWh Renewable Energy ↑ 5.7%	Patents 6,034 ↑ 1,678	100% Conflict Mineral Free
Achieved 100% Waste Diversion rate in 2 Changzhou plants	Donated 5,234 sets of protective wear and 350,000 pieces of surgical masks to medical staff and suppliers	R&D staff and technicians 4,335 ↑ 4%

Key ESG Awards

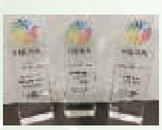
Special Mention

HKICPA Best Corporate Governance Awards 2020



Citation for ESG Disclosure

2020 HKMA Best Annual Reports Awards



Grand Awards in
Best ESG Report – Large Cap
Best GRI Report
Excellence in ESG Governance

Hong Kong ESG Reporting Awards (HERA) 2020

ESG Ratings

Hang Seng Corporate Sustainability Index Series Member 2020-2021

AA

Hang Seng Corporate Sustainability Index

MSCI ESG RATINGS

A

MSCI ESG Ratings

SUSTAINALYTICS a Morningstar company

Low Risk 17.8

Sustainalytics ESG risks ratings

FTSE4Good

3.3

FTSE4Good Index

Independent Auditor's Report

TO THE SHAREHOLDERS OF AAC TECHNOLOGIES HOLDINGS INC.
瑞聲科技控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 167, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Estimated allowance for inventories	
We identified the estimated allowance for inventories as a key audit matter due to the use of judgement and estimates by the management in estimating the allowance of inventories. The management determines the allowance for inventories with reference to the aging analysis and the estimated net realisable value for obsolete inventory items that are no longer suitable for use in operation and/or slow-moving inventory items at the end of each reporting period (refer to notes 4 and 20 to the consolidated financial statements). As at 31 December 2020, the carrying amount of the Group's inventories, net of allowance, was RMB3,995,052,000. During the year, the Group recognised and charged an allowance for inventories of RMB93,013,000 to write down relevant inventories to net realisable value. Details of the Group's inventories are set out in note 20 to the consolidated financial statements.	Our procedures in relation to estimated allowance for inventories included: • Obtaining an understanding on management process and control in identifying obsolete and/or slow-moving inventories items and how management estimates the allowance of obsolete and slow-moving inventory items; • Obtaining the inventory aging analysis and testing the accuracy by agreeing its classification by age on a sample basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories, where the estimated net realisable value is lower than the cost, with reference to historical sales record, ageing analysis and latest/subsequent selling and purchase prices of the inventories; and • Testing subsequent sales/usage of inventories and/or subsequent purchase of materials on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chung Chin Cheung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Revenue	5	**17,140,219**	17,883,757
Cost of goods sold		**(12,912,734)**	(12,776,765)
Gross profit		**4,227,485**	5,106,992
Other income, gains and losses	7	**502,277**	246,991
Fair value gain on financial assets at fair value through profit or loss	17	**–**	19,234
Distribution and selling expenses		**(285,427)**	(275,329)
Administrative expenses		**(671,861)**	(642,803)
Research and development costs		**(1,920,255)**	(1,717,251)
Exchange gain		**147,938**	62,798
Finance costs	6	**(352,558)**	(248,210)
Profit before taxation	8	**1,647,599**	2,552,422
Taxation	10	**(146,571)**	(330,048)
Profit for the year		**1,501,028**	2,222,374
Other comprehensive income (expense):			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income		**14,178**	76,479
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments		**(50,138)**	(24,631)
Loss (gain) reclassified to profit or loss on hedged items		**57,081**	(1,001)
Exchange differences arising on translation of foreign operations		**(105,499)**	(47,742)
Total comprehensive income for the year		**1,416,650**	2,225,479
Profit (loss) for the year attributable to:			
Owners of the Company		**1,506,707**	2,222,375
Non-controlling interests		**(5,679)**	(1)
		1,501,028	2,222,374
Total comprehensive income (expense) attributable to:			
Owners of the Company		**1,423,009**	2,225,480
Non-controlling interests		**(6,359)**	(1)
		1,416,650	2,225,479
Earnings per share – Basic	12	**RMB1.25**	RMB1.84

Consolidated Statement of Financial Position

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	13	**18,592,060**	16,910,713
Right-of-use assets	14	**1,895,871**	1,071,912
Goodwill	15	**164,350**	164,350
Deposits made for acquisition of property, plant and equipment		**576,467**	454,527
Investment properties	16	**12,466**	13,660
Equity instruments at fair value through other comprehensive income	17	**352,006**	350,740
Intangible assets	18	**373,360**	433,884
Deferred tax assets	30	**95,000**	–
		22,061,580	19,399,786
Current assets			
Inventories	20	**3,995,052**	3,664,056
Trade and other receivables	21	**5,176,458**	5,576,036
Amounts due from related companies	22	**5,595**	3,622
Taxation recoverable		**40,294**	40,718
Pledged bank deposits	23	**91,999**	11,100
Bank balances and cash	23	**7,540,330**	5,511,974
		16,849,728	14,807,506
Current liabilities			
Trade and other payables	24	**5,204,503**	5,474,116
Contract liabilities	24	**14,734**	10,271
Lease liabilities	25	**493,657**	96,742
Amounts due to related companies	22	**43,593**	75,354
Taxation payable		**166,881**	178,169
Bank loans	26	**3,348,546**	1,876,094
Government grants	29	**83,015**	–
Derivative financial instruments	19	**24,695**	–
		9,379,624	7,710,746
Net current assets		**7,470,104**	7,096,760
Total assets less current liabilities		**29,531,684**	26,496,546

Consolidated Statement of Financial Position

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Lease liabilities	25	**317,073**	310,332
Bank loans	26	**2,542,950**	3,849,605
Unsecured notes	27	**2,511,748**	2,685,475
Contingent settlement provision	28	**1,671,812**	–
Government grants	29	**603,959**	208,938
Deferred tax liabilities	30	**48,886**	65,392
Derivative financial instruments	19	**14,421**	15,812
		7,710,849	7,135,554
Net assets		**21,820,835**	19,360,992
Capital and reserves			
Share capital	31	**98,135**	98,135
Reserves		**21,060,606**	19,253,058
Equity attributable to owners of the Company		**21,158,741**	19,351,193
Non-controlling interests		**662,094**	9,799
Total equity		**21,820,835**	19,360,992

The consolidated financial statements on pages 89 to 167 were approved and authorised for issue by the Board of Directors on 25 March 2021 and are signed on its behalf by:

PAN BENJAMIN ZHENGMIN	**MOK JOE KUEN RICHARD**
DIRECTOR	DIRECTOR

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2020

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,539	18,934,088	–	18,934,088
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	(47,742)	–	–	–	–	–	(47,742)	–	(47,742)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	76,479	–	–	–	–	76,479	–	76,479
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	(24,631)	–	(24,631)	–	(24,631)
Gain reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	(1,001)	–	(1,001)	–	(1,001)
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,222,375	2,222,375	(1)	2,222,374
Total comprehensive (expense) income for the year	–	–	–	–	–	(47,742)	76,479	–	–	(25,632)	2,222,375	2,225,480	(1)	2,225,479
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,530,919)	(1,530,919)	–	(1,530,919)
Shares repurchased	–	–	(277,456)	–	–	–	–	–	–	–	–	(277,456)	–	(277,456)
Shares cancelled	(771)	(36,438)	356,658	–	–	–	–	–	–	–	(319,449)	–	–	–
Capital contribution from non-controlling shareholder of subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	9,800	9,800
Disposal of equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	5,637	–	–	–	(5,637)	–	–	–
Transfers	–	–	–	–	–	–	–	–	174,992	–	(174,992)	–	–	–
At 31 December 2019	**98,135**	**–**	**–**	**1,135**	**23,391**	**(28,787)**	**100,754**	**87,245**	**888,880**	**(15,477)**	**18,195,917**	**19,351,193**	**9,799**	**19,360,992**
Exchange differences arising from translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**(104,819)**	**–**	**–**	**–**	**–**	**–**	**(104,819)**	**(680)**	**(105,499)**
Fair value changes on equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**14,178**	**–**	**–**	**–**	**–**	**14,178**	**–**	**14,178**
Fair value changes on derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(50,138)**	**–**	**(50,138)**	**–**	**(50,138)**
Loss reclassified to profit or loss on hedged item	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57,081**	**–**	**57,081**	**–**	**57,081**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,506,707**	**1,506,707**	**(5,679)**	**1,501,028**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**–**	**(104,819)**	**14,178**	**–**	**–**	**6,943**	**1,506,707**	**1,423,009**	**(6,359)**	**1,416,650**
Dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(106,807)**	**(106,807)**	**–**	**(106,807)**
Dilution of interests in subsidiaries*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**491,346**	**491,346**	**658,654**	**1,150,000**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**593,381**	**–**	**(593,381)**	**–**	**–**	**–**
At 31 December 2020	**98,135**	**–**	**–**	**1,135**	**23,391**	**(133,606)**	**114,932**	**87,245**	**1,482,261**	**(8,534)**	**19,493,782**	**21,158,741**	**662,094**	**21,820,835**

The People's Republic of China (the "PRC") statutory reserve are non-distributable and the transfer to these reserves is determined by the board of directors of subsidiaries established in the PRC in accordance with the Articles of Association of the subsidiaries. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries of the Company and the allocation basis are decided by their board of directors annually. The PRC statutory reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the paid-in capital of subsidiaries acquired pursuant to the Group's reorganisation in preparation for the listing of the Company's shares.

The capital reserve relates to a deemed capital contribution from a shareholder in prior years.

The non-distributable reserve of the Group arose as a result of capitalisation of retained profits by subsidiaries of the Company.

* Dilution of interest in a subsidiary arises from issuance of new shares by a subsidiary during the year ended 31 December 2020 and the difference between the change in non-controlling interests and the consideration is recognised directly in retained profit. When the obligation for contingent settlement is established, the liability is initially recognised and presented as contingent settlement provision on the consolidated statement of financial position with the corresponding debit to equity. Details of relevant transactions are set out in note 28.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before taxation	**1,647,599**	2,552,422
Adjustments for:		
Interest income	**(58,989)**	(50,273)
Finance costs	**352,558**	248,210
Depreciation of property, plant and equipment	**2,261,585**	2,018,539
Depreciation of right-of-use assets	**166,058**	112,735
Amortisation of intangible assets	**48,692**	43,838
Depreciation of investment property	**1,194**	1,194
(Gain) loss on disposal/write-off of property, plant and equipment	**(2,305)**	2,149
Gain on disposal of right-of-use assets	**(1,132)**	(65)
Amortisation of upfront fee for bank loans	**–**	6,492
Amortisation of government grants	**(126,305)**	(51,019)
Fair value gain on financial assets at fair value through profit or loss	**–**	(19,234)
Reversal of impairment loss on trade receivables	**(133)**	(110)
Net allowance for inventories	**93,013**	41,527
Impairment losses recognised in respect of property, plant and equipment	**–**	35,096
Operating cash flows before movements in working capital	**4,381,835**	4,941,501
Increase in inventories	**(469,619)**	(378,972)
Decrease (increase) in trade and other receivables	**160,056**	(1,075,537)
(Increase) decrease in amounts due from related companies	**(1,973)**	1,369
(Decrease) increase in trade and other payables	**(188,444)**	715,194
(Decrease) increase in amounts due to related companies	**(31,761)**	8,407
Increase in contract liabilities	**4,463**	1,598
Cash generated from operations	**3,854,557**	4,213,560
Taxation paid	**(261,953)**	(370,068)
Net cash from operating activities	**3,592,604**	3,843,492

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Investing activities			
Deposits paid for acquisition of property, plant and equipment		(2,160,775)	(1,268,284)
Acquisition of property, plant and equipment		(2,088,449)	(1,544,236)
Payments for right-of-use assets		(485,538)	(20,352)
Placement of pledged bank deposits		(101,665)	(11,100)
Additions to intangible assets		(2,015)	(88,749)
Payments for rental deposits		(509)	(549)
Withdrawal of time deposits with original maturity over three months		697,620	67,545
Government grants received relating to acquisitions of non-current assets		604,341	142,178
Proceeds from disposal of property, plant and equipment		144,852	30,761
Interest received		53,641	48,135
Proceeds from disposal of right-of-use assets		53,147	561
Withdrawal of pledged bank deposits		20,766	2,100
Return of capital from (acquisition of) equity instruments at fair value through other comprehensive income		2,508	(92,696)
Placement of time deposits with original maturity over three months		–	(697,620)
Settlement of consideration payable for acquisition of a business		–	(4,083)
Proceeds from disposal of financial assets at fair value through profit or loss	17	–	41,804
Net cash used in investing activities		(3,262,076)	(3,394,585)
Financing activities			
Bank loans raised		2,460,154	3,234,355
Capital contributions from non-controlling interests of a subsidiary	28	2,808,000	9,800
Receipt from derivative financial instruments		31,800	50,218
Repayments of bank loans		(2,103,695)	(3,497,570)
Interest paid		(299,822)	(245,217)
Repayment of lease liabilities		(150,962)	(133,308)
Dividend paid		(106,807)	(1,530,919)
Payment to derivative financial instruments		(56,488)	(49,217)
Proceed from issuance of unsecured notes		–	2,706,185
Repurchase of shares	31	–	(277,456)
Acquisition of additional interests in subsidiaries		–	(11,868)
Net cash generated from financing activities		2,582,180	255,003

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Net increase in cash and cash equivalents	**2,912,708**	703,910
Cash and cash equivalents at 1 January	**4,814,354**	4,058,949
Effect of foreign exchange rate changes	**(186,732)**	51,495
	7,540,330	4,814,354
Represented by:		
Bank balances and cash	**7,540,330**	5,511,974
Less: Time deposits with original maturity over three months	**–**	(697,620)
Cash and cash equivalents at 31 December	**7,540,330**	4,814,354

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 40.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020[2]

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

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

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

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

Amendments to IFRS 3 "Reference to the Conceptual Framework"

The amendments:

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

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

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

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

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

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

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

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

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2" (continued)

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

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

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

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

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

  (i) the classification should not be affected by management intentions or expectations to settle the liabilities within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation of consolidated financial statements (continued)

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant component of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity (retained profits) and attributed to owners of the Company.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an assets and a liability in the International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements" (replaced by the "Conceptual Framework for Financial Reporting" issued in September 2010).

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's relevant CGUs ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Goodwill (continued)

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sales of dynamic components, electromagnetic drives and precision mechanics, optic products, Micro Electro-Mechanical Systems ("MEMS") components and other products is recognised at a point in time. Under the transfer-of-control approach in IFRS 15 "Revenue from Contracts with Customers", revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications (continued)

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

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

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

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment, other than freehold land and construction in progress, are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any.

Freehold land is not depreciated and is measured at cost, less any recognised impairment loss.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than freehold land and construction in progress less their residual values over their estimated useful lives, using the straight-line method over the following number of years:

Buildings	20
Electronic equipment and furniture	5
Leasehold improvements	5 years or over the term of lease, whichever is shorter
Motor vehicles	5
Plant and machinery	10

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost of investment properties and land over their estimated useful lives of 20 years and 50 years respectively and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period in which the property is derecognised.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as "right-of-use assets" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the consideration cannot be allocated reliably between non-lease building elements and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivable, pledged bank deposits, bank balances and amounts due from related companies). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed individually for debtors with significant balances and the remaining debtors are assessed collectively with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group estimates ECL for certain trade receivables collectively taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics which formulating the grouping:

- Past-due status and historical credit loss experience; and
- Size of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity and recognised as treasury shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Financial liabilities at amortised cost

Financial liabilities excluding derivatives, which consist of bank loans, unsecured notes, contingent settlement provision, trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Contingent settlement provision arising from a contract to repay capital from non-controlling interests

The gross financial liability arising from a contract to repay capital from non-controlling interests is recognised when contractual obligation (including potential obligation arising on the occurrence or non-occurrence of future events) to repurchase the shares in a subsidiary is established. The contingent settlement provision on the consolidated statement of financial position is initially recognised and measured at present value of the estimated capital repayment amount with the corresponding debit to equity. Subsequent to initial recognition, the adjustments arising from remeasurement of the present value of the such gross obligation under the contract to the non-controlling shareholders is recognised in profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges. At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) as based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other income, gains and losses' line item.

For the purpose of reclassifying thee amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Intangible assets (continued)

Internally generated intangible assets – research and development expenditure (continued)

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill)

At the end of the reporting period the Group reviews the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill) (continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income, gains and losses".

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Group (i.e. Renminbi) using exchange rate prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Retirement benefit costs

Payments to the defined contribution retirement plan, including state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme and central provident fund schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimations that have significant effect on the amounts recognised in the consolidated financial statements. The following is the key assumptions concerning the future, and other key sources of estimations uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated allowance for inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2020, the carrying amount of inventories was RMB3,995,052,000 (2019: RMB3,664,056,000) and net allowance for inventories of RMB93,013,000 (2019: RMB41,527,000) was recognised in the profit or loss during the year ended 31 December 2020.

Deferred tax asset

As at 31 December 2020, a deferred tax asset of RMB63,000,000 (2019: Nil) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB1,727,640,000 (2019: RMB1,507,528,000) for the remaining subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. REVENUE AND SEGMENT INFORMATION

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

Information reported to the key operating decision makers for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. In the current year, the Group reorganised its internal reporting structure which resulted in adding optics products as a separate standalone business to the composition of its reportable segments. With the significant growth in the business of optics products, the operating result is separately reported to the management. Prior year segment disclosures have been represented to conform with the current year's presentation.

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

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

5. REVENUE AND SEGMENT INFORMATION (continued)

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

Information regarding these segments is presented below.

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

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of finance costs, interest income, administration expenses, research and development costs, distribution and selling expenses, other income, gains and losses, fair value gain on financial assets at fair value through profit or loss and exchange gain. This is the measure reported to the key operating decision makers for the purpose of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION (continued)

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION (continued)

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

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

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

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

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB12,669,545,000 (2019: RMB9,922,899,000). The total amount of revenue by each customer and number of customers are not disclosed, as in the opinion of the management such disclosure is harmful to the Group's business.

6. FINANCE COSTS

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

7. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses mainly comprise of:

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

* Included in the amount is RMB126,305,000 (2019: RMB51,019,000) representing amortisation of government grants as detailed in note 29. In addition, during the current year, the Group recognised government grants of RMB57,253,000 in respect of COVID-19-related subsidies. The remaining amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the year of recognition.

8. PROFIT BEFORE TAXATION

	2020	2019
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting) :		
Directors' emoluments (note 9)	**15,813**	16,185
Other staff's retirement benefits scheme contributions	**336,411**	421,275
Other staff costs	**4,070,868**	4,187,564
Total staff costs*	**4,423,092**	4,625,024
Depreciation of property, plant and equipment	**2,261,585**	2,018,539
Depreciation of right-of-use assets	**166,058**	112,735
Total depreciation*	**2,427,643**	2,131,274
Allowance for inventories, included in cost of goods sold (note 20)	**93,013**	41,527
Amortisation of intangible assets	**48,692**	43,838
Amortisation of upfront fee for bank loans	**–**	6,492
Auditor's remuneration	**3,383**	3,319
Cost of inventories recognised as expense	**12,819,721**	12,735,238
Cost of raw materials included in research and development costs	**304,624**	250,248
Depreciation of investment property	**1,194**	1,194
Reversal of impairment loss on trade receivables	**(133)**	(110)
Short-term and low value asset leases expense	**25,129**	24,818

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

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The aggregate Directors' and chief executive's remuneration for the year ended 31 December 2020 amounts to RMB15,813,000 (2019: RMB16,185,000), disclosed pursuant to the applicable Listing Rules and CO, are as follows:

For the year ended 31 December 2020:

	Pan Benjamin Zhengmin ("Mr. Pan") RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,913	2,256	7,169
Performance related bonuses	–	4,632	4,632
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,913	6,904	11,817

Mr. Pan is also the Chief Executive Officer ("CEO") of the Company and his emoluments disclosed above include those for services rendered by him as the CEO.

The executive Directors' emoluments shown above were for their services in connection with the affairs of the Company and the Group.

	Wu Ingrid Chun Yuan ("Ms. Wu") RMB'000	Total RMB'000
Non-executive Director		
Fees	417	417
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	417	417

The non-executive Director's emolument shown above was for her services as Director of the Company.

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 31 December 2020: (continued)

	Koh Boon Hwee RMB'000 (Note iii)	Poon Chung Yin Joseph RMB'000 (Note iii)	Au Siu Cheung Albert RMB'000	Kwok Lam Kwong Larry RMB'000	Peng Zhiyuan RMB'000	Zhang Hongjiang RMB'000	Total RMB'000
Independent non-executive Directors							
Fees	375	243	796	622	661	882	3,579
Other emoluments:							
Salaries and other benefits	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–
Total Directors' emoluments	375	243	796	622	661	882	3,579

The independent non-executive Directors' emoluments shown above were for their services as Directors of the Company.

For the year ended 31 December 2019:

	Mr. Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,812	2,250	7,062
Performance related bonuses	–	4,455	4,455
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,812	6,721	11,533

Mr. Pan is also the CEO of the Company and his emoluments disclosed above include those for services rendered by him as the CEO.

The executive Directors' emoluments shown above were for their services in connection with the affairs of the Company and the Group.

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 31 December 2019: (continued)

	Ms. Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	411	411
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	411	411

The non-executive Director's emolument shown above was for her services as Director of the Company.

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Au Siu Cheung Albert RMB'000	Kwok Lam Kwong Larry RMB'000	Peng Zhiyuan RMB'000 (Note i)	Zhang Hongjiang RMB'000 (Note i)	Tan Bian Ee RMB'000 (Note ii)	Total RMB'000
Independent non-executive Directors								
Fees	992	655	784	612	533	467	198	4,241
Other emoluments:								
Salaries and other benefits	–	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–	–
Total Directors' emoluments	992	655	784	612	533	467	198	4,241

The independent non-executive Directors' emoluments shown above were for their services as Directors of the Company.

Notes:

(i) Mr. Peng Zhiyuan and Mr. Zhang Hongjiang were appointed as independent non-executive Directors of the Company on 1 January 2019.

(ii) Mr. Tan Bian Ee retired on 24 May 2019.

(iii) Mr. Koh Boon Hwee and Mr. Poon Chung Yin Joseph retired on 15 May 2020.

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

Employees' emoluments

The five highest paid individuals included one (2019: one) Director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2019: four) highest paid individuals are as follows:

	2020	2019
	RMB'000	RMB'000
Employees		
– basic salaries and allowances	**7,718**	7,139
– bonus	**18,704**	17,718
– retirement benefits scheme contributions	**56**	70
	26,478	24,927

Note: The bonus is determined based on performance of the employees.

The emoluments were within the following bands:

	Number of employees	
	2020	2019
HK$6,000,001 to HK$6,500,000	**1**	2
HK$6,500,001 to HK$7,000,000	**1**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. No emoluments were paid by the Group to the Directors of the Company and/or five highest paid individuals as an inducement to join or as compensation for loss of office.

10. TAXATION

	2020 RMB'000	2019 RMB'000
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**141,190**	226,057
Other jurisdictions	**95,669**	109,893
Hong Kong Profits Tax	**–**	2,931
PRC and overseas withholding tax	**25,098**	6,376
Overprovision of taxation in prior years	**(3,093)**	(8,831)
	258,864	336,426
Deferred tax (see note 30)	**(112,293)**	(6,378)
	146,571	330,048

Under the law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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

According to a joint circular of Ministry of Finance and the State Taxation Administration of the PRC, Cai Shui [2008] No. 1, the accumulated undistributed profits earned by foreign invested enterprise prior to 1 January 2008 can be exempted from EIT when they are distributed to foreign investor after 2008. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Implementation Regulation. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to the Taxes on Income, the withholding tax rate on dividend paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise and it is considered as the beneficial owner of the dividend, and remains at 10% otherwise.

In addition, certain PRC subsidiaries were officially endorsed as High and New Technology Enterprises ("HNTE") till the dates ranging from 28 November 2021 to 11 December 2023. Pursuant to the EIT Law, those PRC subsidiaries endorsed as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive program which is granted based on the fulfilment of carrying out qualifying business activities. This incentive program had expired in 2018 and agreement for its extension on similar terms for another 10-year period has been signed, and is effective from 1 January 2019.

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

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

10. TAXATION (continued)

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

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

Notes:

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

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

11. DIVIDENDS

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

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

12. EARNINGS PER SHARE

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

No diluted earnings per share is presented as there were no potential ordinary shares outstanding during either years.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2019	39,332	2,220,238	1,740,441	1,381,315	69,865	15,073,832	1,723,550	22,248,573
Currency realignment	1,474	247	1,146	1,575	71	4,606	(68)	9,051
Additions	–	72,726	209,627	84,180	4,507	1,341,874	1,839,963	3,552,877
Disposals/write-off	–	(3,611)	(21,187)	(1,936)	(2,937)	(77,150)	(14,602)	(121,423)
Transfers	–	408,550	16,173	137,849	368	979,563	(1,542,503)	–
At 31 December 2019	**40,806**	**2,698,150**	**1,946,200**	**1,602,983**	**71,874**	**17,322,725**	**2,006,340**	**25,689,078**
Currency realignment	**(286)**	**(12,568)**	**(3,746)**	**(5,153)**	**(317)**	**(36,508)**	**(7,956)**	**(66,534)**
Additions	**2,627**	**33,668**	**94,607**	**279,556**	**3,366**	**715,045**	**2,994,493**	**4,123,362**
Disposals/write-off	**–**	**(115,469)**	**(30,006)**	**(18,199)**	**(6,660)**	**(149,804)**	**(6,430)**	**(326,568)**
Transfers	**–**	**188,731**	**28,611**	**123,249**	**2,481**	**1,414,458**	**(1,757,530)**	**–**
At 31 December 2020	**43,147**	**2,792,512**	**2,035,666**	**1,982,436**	**70,744**	**19,265,916**	**3,228,917**	**29,419,338**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2019	–	383,860	928,503	753,803	37,592	4,700,128	4,648	6,808,534
Currency realignment	–	109	787	790	51	2,972	–	4,709
Provided for the year	–	115,006	241,793	231,835	9,064	1,420,841	–	2,018,539
Eliminated on disposal/write-off	–	(782)	(17,088)	(760)	(2,550)	(67,333)	–	(88,513)
Impairment losses recognised in profit or loss	–	–	1,721	–	2	33,373	–	35,096
At 31 December 2019	**–**	**498,193**	**1,155,716**	**985,668**	**44,159**	**6,089,981**	**4,648**	**8,778,365**
Currency realignment	**–**	**(3,063)**	**(3,202)**	**(2,222)**	**(179)**	**(19,985)**	**–**	**(28,651)**
Provided for the year	**–**	**139,694**	**226,270**	**241,134**	**7,896**	**1,646,591**	**–**	**2,261,585**
Eliminated on disposal/write-off	**–**	**(23,998)**	**(21,105)**	**(9,108)**	**(5,903)**	**(123,907)**	**–**	**(184,021)**
At 31 December 2020	**–**	**610,826**	**1,357,679**	**1,215,472**	**45,973**	**7,592,680**	**4,648**	**10,827,278**
CARRYING VALUES								
At 31 December 2020	**43,147**	**2,181,686**	**677,987**	**766,964**	**24,771**	**11,673,236**	**3,224,269**	**18,592,060**
At 31 December 2019	40,806	2,199,957	790,484	617,315	27,715	11,232,744	2,001,692	16,910,713

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

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

14. RIGHT-OF-USE ASSETS

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

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

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

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

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

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

14. RIGHT-OF-USE ASSETS (continued)

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

Restrictions or covenants on leases

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

15. GOODWILL

The goodwill acquired in business combination was allocated to each individual subsidiary which management considers represent separate CGUs. At the end of the reporting period, the carrying amount of goodwill had arisen from the acquisition of the following subsidiaries:

	2020 **RMB'000**	2019 RMB'000
Kaleido Technology APS	**8,705**	8,705
WiSpry, Inc.	**77,414**	77,414
深圳市軒盈通電子有限公司 (Shenzhen Xuanyingtong electronics Co., Ltd.)*	**78,231**	78,231
	164,350	164,350

* The English translation is for identification purpose only.

During the year ended 31 December 2020, the Directors of the Company determines that there is no impairment of the CGUs containing goodwill.

The basis of the recoverable amounts of the CGUs and its major underlying assumptions are summarised below:

The recoverable amount of each of the CGUs is determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. These calculations use cash flow projections based on latest financial budgets approved by management covering a five-year period, using an applicable pre-tax discount rate ranging from 15.97% to 17.00% (2019: 14.35% to 16.40%). The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2019: 3%). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations.

16. INVESTMENT PROPERTIES

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

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

(i) Equity instruments at FVTOCI

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

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

Unlisted shares

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

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

Listed shares

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

(ii) Financial assets at FVTPL

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

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Customer base RMB'000	Total RMB'000
COST				
At 1 January 2019	279,051	166,450	113,800	559,301
Currency realignment	151	2,250	–	2,401
Addition	109,679	–	–	109,679
At 31 December 2019	**388,881**	**168,700**	**113,800**	**671,381**
Currency realignment	**(9,839)**	**(8,984)**	**–**	**(18,823)**
Addition	**2,015**	**–**	**–**	**2,015**
At 31 December 2020	**381,057**	**159,716**	**113,800**	**654,573**
AMORTISATION AND IMPAIRMENT				
At 1 January 2019	123,407	62,175	7,112	192,694
Currency realignment	278	687	–	965
Provided for the year	19,497	12,961	11,380	43,838
At 31 December 2019	**143,182**	**75,823**	**18,492**	**237,497**
Currency realignment	**(1,389)**	**(3,587)**	**–**	**(4,976)**
Provided for the year	**25,902**	**11,410**	**11,380**	**48,692**
At 31 December 2020	**167,695**	**83,646**	**29,872**	**281,213**
CARRYING VALUE				
At 31 December 2020	**213,362**	**76,070**	**83,928**	**373,360**
At 31 December 2019	245,699	92,877	95,308	433,884

Patents represent the Group's patents on designs of small and sophisticated module structures, and new addition mainly represents the patent for production of optics products (2019: method to measure and control the displacement of the diaphragm). Development expenditure represents the Group's development cost in MEMS technology and wafer-level glass moulding technology which are used to enhance the Group's current products. Customer base represents Group's customer relationship acquired by the Group as part of a business combination in 2018.

Amortisation is provided to write off the cost of patents, development expenditure and customer base, using the straight line method, over the estimated useful life ranging from 3 to 20 years.

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group entered into the interest rate swap contracts with notional amount of US$160,000,000 (2019: US$200,000,000) with commercial banks to minimise its exposure to cash flow changes of its floating-rate United States dollars ("US$") denominated bank loans, with details set out in note 26, with principal amount of US$160,000,000 (2019: US$200,000,000). The management considers that the interest rate swap contracts are highly effective hedging instruments and have designated them as cash flow hedging instruments for hedge accounting purposes. Fair value change on these hedging instruments in cash flow hedge of loss of RMB8,101,000 (2019: Loss of RMB25,632,000) for the year ended 31 December 2020 have been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB19,577,000 (2019: Gain of RMB1,001,000) on cash flow hedge was reclassified to profit or loss. The management expected the accumulated sum is to be released to profit or loss at various dates in the coming maturity periods after the reporting period.

During the year ended 31 December 2020, the Group entered into a cross currency swap contract with total notional amount of US$50,000,000 with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of US$ denominated unsecured notes, with details set out in note 27. The critical terms of the cross currency swap contract and the corresponding US$ denominated unsecured notes were closely aligned and the management considers that the cross currency swap contract is highly effective hedging instrument and qualified as cash flow hedge. Fair value change on this hedging instrument in cash flow hedge of gain of RMB15,044,000 for the year ended 31 December 2020 has been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB37,504,000 (2019: Nil) on cash flow hedge was reclassified to profit or loss.

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

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

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2020 and 2019 is Level 2 under the fair value hierarchy (details set out in note 36).

20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	970,887	882,277
Work in progress	853,735	689,547
Finished goods	2,170,430	2,092,232
	3,995,052	3,664,056

The Group has written off provision for inventories of RMB56,754,000 (2019: RMB42,765,000) in the current year.

During the year, net allowance for inventories of approximately RMB93,013,000 (2019: RMB41,527,000) has been recognised and included in cost of goods sold.

21. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

21. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB18,023,000 (2019: RMB70,656,000) which are past due as at the reporting date. Included in the past due balances, none of the balance has been past due 90 days or more (2019: RMB460,000 has been past due 90 days or more and is not considered as in default based on good repayment records for those customers and continuous business with the Group).

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 and 2019 are set out in note 35.

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

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

22. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Amounts due from related companies

Details of the amounts due from related companies, in which close family members of Ms. Wu and Mr. Pan have controlling interests, are as follows:

Name of related company	**2020 RMB'000**	2019 RMB'000
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	**2,029**	1,680
四川茵地樂科技有限公司 (Sichuan Yindile Technology Co., Ltd.)*	**2,935**	1,575
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)*	**591**	367
四川茵地樂材料科技集團常州有限公司 (Sichuan Yindile Materials & Technology Group Changzhou Co., Ltd.)*	**40**	–
	5,595	3,622

* The English translation is for identification purpose only.

Amounts were trade-related, unsecured, interest-free and are repayable on demand. The average credit period for trade-related transaction is normally within 30 days to 90 days.

22. AMOUNTS DUE FROM (TO) RELATED COMPANIES (continued)

Amounts due to related companies

Details of amounts due to related companies, in which close family members of Ms. Wu and Mr. Pan have controlling interests, are as follows:

Name of related company	2020 RMB'000	2019 RMB'000
常州市凌迪電子科技有限公司 (Changzhou Lingdi Electronic Technology Co., Ltd)*	**27,070**	–
常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory)*	**9,768**	59,922
常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.)*	**6,106**	14,082
紅光越南塑業有限公司 (Hongguang Viet Nam Plastic Co., Ltd.)*	**649**	1,350
	43,593	75,354

* The English translation is for identification purpose only.

Amounts were trade-related, unsecured, interest-free and are repayable on demand. The average credit period for trade-related transaction is normally within 30 days to 90 days.

23. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB91,999,000 (2019: RMB11,100,000) has been pledged to secure credit facilities granted to certain subsidiaries which is expected to be repaid within one year.

As at 31 December 2020, there is no time deposits with original maturity over three months included in bank balances (2019: RMB697,620,000).

The bank balances carry variable interest rates ranging from 0.00% to 2.025% (2019: 0.00% to 2.34%) per annum and fixed interest rates ranging from 0.499% to 2.405% (2019: 1.10% to 2.41%) per annum. The pledged bank deposits carry fixed interest rates of 1.35% to 1.95% (2019: 1.35% to 1.75%) per annum.

The Group's bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Bank balances and cash	
	2020 RMB'000	2019 RMB'000
US$	**1,088,839**	1,462,868
HK$	**60,432**	72,639
Japanese Yen	**91,668**	17,874
Euro	**224,738**	56,816
Other currencies	**13,307**	15,193

24. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

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

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

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

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

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

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

24. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (continued)

Contract liabilities

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

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

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

25. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	**493,657**	96,742
Within a period of more than one year but not more than two years	**99,395**	90,260
Within a period of more than two years but not more than five years	**93,907**	119,180
Within a period of more than five years	**123,771**	100,892
	810,730	407,074
Less: Amount due for settlement with 12 months shown under current liabilities	**493,657**	96,742
Amount due for settlement after 12 months shown under non-current liabilities	**317,073**	310,332

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

No extension options are included in all lease agreements entered by the Group. The weighted average incremental borrowing rates applied to lease liabilities is 4.36% (2019: 4.46%). These lease liabilities were measured at the present value of the lease payments that are not yet paid.

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

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

26. BANK LOANS

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

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

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

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

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

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

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

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

27. UNSECURED NOTES

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

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

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

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

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

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

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

29. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB604,341,000 (2019: RMB142,178,000) in aggregate from various PRC government authorities as an incentive for leasing factories, constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs.

During the year, RMB126,305,000 (2019: RMB51,019,000) of the grants have been released to profit or loss.

30. DEFERRED TAX ASSETS/LIABILITIES

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

Deferred tax assets

	Tax losses RMB'000	Inventories RMB'000 (Note a)	Total RMB'000
At 1 January 2020	–	–	–
Credit to profit or loss	63,000	32,000	95,000
At 31 December 2020	63,000	32,000	95,000

Deferred tax liabilities

	Depreciation/ Amortization RMB'000 (Note b)	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2019	48,147	23,522	71,669
Credited to profit or loss	(3,533)	(2,845)	(6,378)
Currency realignment	101	–	101
At 31 December 2019	44,715	20,677	65,392
Reversal of withholding tax upon distribution	–	(15,520)	(15,520)
Credited to profit or loss	(1,773)	–	(1,773)
Currency realignment	787	–	787
At 31 December 2020	43,729	5,157	48,886

Notes:

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

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

30. DEFERRED TAX ASSETS/LIABILITIES (continued)

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

At 31 December 2020, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the management to retain the earnings within these subsidiaries.

31. SHARE CAPITAL

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

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

During the year ended 31 December 2019, the Company repurchased a total of 7,500,000 issued ordinary shares of the Company in the market for a consideration of HK$319,854,000 (equivalent to approximately RMB277,456,000). 9,500,000 ordinary shares were cancelled during the year ended 31 December 2019, including 2,000,000 ordinary shares which were repurchased in 2018.

32. SHARE AWARD SCHEME

On 23 March 2016, the Company had adopted the AAC Share Award Scheme (the "Scheme") constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the "Trustee"), in which employees may be selected by the board of directors to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the board of directors of the Company, or purchased on the Stock Exchange, by the Trustee of the trusts declared in the Trust Deed.

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

The expenses in relation to the share awards will be charged to profit or loss over the relevant vesting periods with a corresponding increase in equity.

During both years, no new shares have been issued to the Trustee and no shares of the Company had been purchased by the Trustee nor any share awards had been granted to any employees.

33. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

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

Undiscounted lease payments receivable on leases are as follows:

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

34. CAPITAL COMMITMENTS

	2020 **RMB'000**	2019 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	**767,658**	399,694

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Equity instruments at FVTOCI	352,006	350,740
Financial assets at amortised cost	11,484,543	10,020,431
Financial liabilities		
Derivative financial instruments	39,116	15,812
Financial liabilities at amortised cost	15,144,397	13,793,923
Lease liabilities	810,730	407,074

Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, equity instruments at FVTOCI, trade and other receivables, amounts due from (to) related companies, pledged bank deposits, bank balances and cash, trade and other payables, unsecured notes, bank loans, contingent settlement provision and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

Currency risk – spot rates

With the Group's international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will consider to monitor its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

The Group will not enter into derivative transactions for pure trading or speculative purposes.

The carrying amounts of the Group's and intra-Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date mainly includes:

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
US$	14,771,654	12,919,302	15,315,350	11,909,258
Japanese Yen	191,593	166,397	97,309	120,280
Euro	606,843	581,722	296,061	299,360
HK$	439,057	478,687	2,551	244,396

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

The Group has entered into cross currency swap contracts in relation to the US$ denominated unsecured notes amounting to RMB326,245,000 (equivalent to US$50,000,000) (2019: Nil). It is the Group's policy to negotiate the terms of the hedge derivatives, to the extent possible, to match or approximate the terms of the hedged items to maximise hedge effectiveness.

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% (2019: 5%) increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items except for the effect on certain foreign currency denominated unsecured notes under an effective hedging relationship as the Group's net exposure to currency risk arising from the hedging relationship is insignificant and adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive/negative number (in bracket) below indicates an increase/decrease in profit for the year where the RMB strengthen 5% (2019: 5%) against the relevant currency and vice versa. For a 5% (2019: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact	
	2020	2019
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
US$	**20,389**	(37,877)
Japanese Yen	**(3,536)**	(1,729)
Euro	**(11,654)**	(10,589)
HK$	**(16,369)**	(8,786)

No sensitivity analysis has been presented for derivatives that are designated as hedging instruments because the Group's net exposure to currency risk arising from the hedging relationship is considered to be insignificant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, lease liabilities, fixed-rate bank loans, unsecured notes and contingent settlement provision (details of which are set out in notes 23, 25, 26, 27 and 28, respectively). The bank deposits and the majority of the fixed-rate bank loans will mature within one year, the management considers the risk is insignificant to the Group.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

The Group is also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans (details of which are set out in notes 23 and 26, respectively). In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (details of which are set out in note 19).

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. As listed in note 26, several of the Group's LIBOR and other relevant interbank offered rates bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank loans, and bank balances at the end of the reporting period was the amount outstanding for the whole year. The sensitivity analysis has excluded certain bank loans under cash flow hedges and certain bank balances which are not interest sensitive.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2020 would increase/decrease by RMB22,426,000 (2019: increase/decrease by RMB3,010,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank balances.

Other price risk

The Group is exposed to equity price risk on its investments in listed equity securities at FVTOCI.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis of equity securities with fair value measurement categorised within Level 1, the sensitivity rate of 10% is applied in current year.

As at 31 December 2020, if the prices of the respective equity instruments had been 10% higher/lower, the investment revaluation reserve as at 31 December 2020 would increase/decrease by RMB4,801,000 (2019: RMB6,956,000) for the Group as a result of the changes in fair value of equity instruments at FVTOCI.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

As at 31 December 2020, the Group has concentration of credit risk on total trade and bills receivables as 66.87% (2019: 72.84%) of the total trade and bills receivables are due from the Group's five largest customers. These five customers are large multi-national corporations and are mobile phone and/or consumer electronic companies. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade receivables with significant balances or credit-impaired balances and bill receivables individually by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In determining the ECL for trade receivables with significant balances and bills receivables, the management considers the probability of default is negligible and loss given default is low based on the external credit rating of the customers and the bank issued bills, and accordingly, no loss allowance is made in the consolidated financial statement.

In determining the ECL for other receivables, the management has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

In addition, the management is of the opinion that there has no default occurred for trade receivables balance as at 31 December 2019 in which past due 90 days or more and the balances are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers. No trade receivables balance as at 31 December 2020 is past due 90 days or more.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. Other than the trade receivables with significant balances and bill receivables, the remaining balances of gross carrying amount of RMB497,538,000 (2019: RMB568,450,000) are grouped collectively based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. The management considers the historical default rate is low for these remaining balances which is not yet past due and accordingly, no loss allowances is made in the consolidated financial statements. The following table provides information about the exposure to credit risk and ECL for trade receivables which are past due and assessed collectively during the year.

For the year ended 31 December 2020

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables				
1 – 90 days past due	18,059	0.2%	(36)	18,023
	18,059		(36)	18,023

For the year ended 31 December 2019

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables				
1 – 90 days past due	70,227	0.04%	(31)	70,196
91 – 180 days past due	443	9.9%	(44)	399
Over 180 days past due	193	68.4%	(132)	61
	70,863		(207)	70,656

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	1,227	20,213	21,440
Changes due to trade receivables recognised as at 1 January 2019			
– Impairment losses recognised	103	–	103
– Impairment losses reversed	(349)	–	(349)
New financial assets originated or purchased	136	–	136
Written off	(913)	–	(913)
Currency realignment	3	–	3
As at 31 December 2019 and 1 January 2020	**207**	**20,213**	**20,420**
Changes due to trade receivables recognised as at 1 January 2020			
– Transferred to credit-impaired	**(10)**	**10**	**–**
– Impairment losses recognised	**–**	**23**	**23**
– Impairment losses reversed	**(194)**	**–**	**(194)**
New financial assets originated or purchased	**38**	**–**	**38**
Currency realignment	**(5)**	**–**	**(5)**
As at 31 December 2020	**36**	**20,246**	**20,282**

For amounts due from related companies, in order to minimise the credit risk, the management continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In the opinion of the management, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant in accordance with IFRS 9 as at 31 December 2020 and 2019 and thus no impairment loss was recognised.

The management considers the bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, impairment loss was considered as insignificant.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's contractual maturity for its financial liabilities:

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2020								
Non-derivative financial liabilities								
Non-interest bearing	–	767,674	4,301,667	–	–	–	5,069,341	5,069,341
Variable interest rate	1.6%	–	1,458,618	527,539	–	–	1,986,157	1,958,971
Fixed interest rate	3.5%	–	2,059,200	1,769,401	3,030,602	93,799	6,953,002	6,444,273
Contingent settlement provision	4.0%	–	–	–	1,856,960	–	1,856,960	1,671,812
Lease liabilities	4.4%	–	510,540	111,032	115,062	141,394	878,028	810,730
		767,674	8,330,025	2,407,972	5,002,624	235,193	16,743,488	15,955,127
Derivatives – gross settlement								
Interest rate swap contracts								
– inflow		–	(11,315)	(5,976)	–	–	(17,291)	(17,270)
– outflow		–	27,795	11,374	–	–	39,169	39,118
		–	16,480	5,398	–	–	21,878	21,848
Cross currency swap contracts								
– inflow		–	(9,975)	(10,159)	(372,906)	–	(393,040)	(380,511)
– outflow		–	18,317	18,317	382,870	–	419,504	397,779
		–	8,342	8,158	9,964	–	26,464	17,268
At 31 December 2019								
Non-derivative financial liabilities								
Non-interest bearing	–	614,055	4,768,694	–	–	–	5,382,749	5,382,749
Variable interest rate	3.8%	–	349,444	933,791	565,915	–	1,849,150	1,736,646
Fixed interest rate	3.7%	–	1,717,382	1,755,005	3,502,138	405,276	7,379,801	6,674,528
Lease liabilities	4.5%	–	112,767	102,139	139,174	115,522	469,602	407,074
		614,055	6,948,287	2,790,935	4,207,227	520,798	15,081,302	14,200,997
Derivatives – gross settlement								
Interest rate swap contracts								
– inflow		–	(38,066)	(23,440)	(9,960)	–	(71,466)	(70,297)
– outflow		–	45,803	29,717	12,161	–	87,681	86,109
		–	7,737	6,277	2,201	–	16,215	15,812

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	2020	2019				
	RMB'000	RMB'000				
Equity instruments at FVTOCI – Listed shares	**48,011**	69,559	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI – Unquoted equity investments	**6,669**	6,920	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model.	The higher the discount rate, the lower the fair value, and vice versa.
					Forecasted future cash flows	The higher the forecast future cash flow, the higher the fair value, and vice versa.
Equity instruments at FVTOCI – Unquoted equity investments	**297,326**	274,261	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month ("TTM") Price-to-Sales ("P/S") multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount.	The higher the lack of marketability discount, the lower the fair value.
					TTM P/S multiples of selected comparable companies.	The higher the TTM P/S multiples, the higher the fair value.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

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

Except for listed unsecured notes in which there is fair value based on the quoted bid price in an active market, the management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of level 3 fair value measurements

	Equity instruments at FVTOCI RMB'000
At 1 January 2019	141,255
Purchase made	92,696
Fair value changes on equity instruments at FVTOCI	46,607
Currency realignment	623
At 31 December 2019	**281,181**
Return of capital	**(2,508)**
Fair value changes on equity instruments at FVTOCI	**35,489**
Currency realignment	**(10,167)**
At 31 December 2020	**303,995**

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall capital risk management strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with capital. The Group will consider to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

38. RETIREMENT BENEFITS SCHEME

The Group mainly participates in the mandatory pension fund and social insurance schemes for its employees in the PRC, Vietnam, Singapore and Hong Kong.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's PRC and Vietnam subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC and Vietnam government. The employees of the Group's Singapore subsidiaries are members of the Central Provident Fund Board in Singapore operated by the Government of Singapore. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

39. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties, all of which are transacted with entities controlled by close family members of substantial shareholders of the Company. The substantial shareholders are also Directors of the Company.

Nature of balances/transactions	2020 RMB'000	2019 RMB'000
Purchase of raw materials	80,662	128,702
Services fee recharged	1,265	1,829
Property rentals received	1,555	1,558
Consulting fee	–	226
Payment for lease liabilities	25,199	24,878
Interest on lease liabilities	2,693	555
Leases liabilities	49,955	–

	US$'000	US$'000
Payment for lease liabilities	161	161

Emoluments paid to the key management personnel of the Company which represents the executive Directors of the Company and the five highest paid individuals, are set out in note 9.

Balances with related parties are disclosed in note 22.

40. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2020 and 31 December 2019, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019			
AAC Acoustic Technologies Inc.*	British Virgin Islands	Registered capital US$50,000	Investment holding
AAC Technologies Pte. Ltd.#	Singapore	Shares SGD500,000	Sale of products, research and development
AAC Technologies Vietnam Co., Ltd. (Note a)#	Vietnam	Registered capital US$6,500,000	Manufacture and sales of products

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019 (continued)			
香港遠宇電子有限公司 YEC Electronics Limited#	Hong Kong	Ordinary shares HK$10,000	Sales of acoustic related products
瑞聲科技(香港)有限公司 AAC Technologies Limited#	Hong Kong	Ordinary shares HK$10,000	Sales of acoustic related products, investment, research and development
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (Note b)#	PRC	Registered capital US$400,000,000	Investment holding
瑞泰(江蘇)投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note c)#	PRC	Registered capital US$349,000,000 (2019: US$250,000,000)	Investment holding
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (Note d)#	PRC	Registered capital US$8,000,000	Manufacture and sales of acoustic products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. (Note f)#	PRC	Registered capital US$227,800,000 (2019: US$122,800,000)	Manufacture and sales of electronic components, research and development
瑞聲精密製造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (Note g)#	PRC	Registered capital US$336,800,000	Manufacture and sales of tooling and precision components, research and development
瑞聲開泰精密科技(常州)有限公司 AAC Kaitai Precision Technologies (Changzhou) Co., Ltd. (Note h)#	PRC	Registered capital US$120,000,000	Manufacture and sales of electronic components research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (Note i)#	PRC	Registered capital US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (Note j)#	PRC	Registered capital RMB69,000,000	Provision of electroplating service

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019 (continued)			
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (Note k)#	PRC	Registered capital US$49,000,000 (2019: US$9,000,000)	Manufacture and sales of precision components for acoustic products, research and development
瑞聲科技信息諮詢(常州)有限公司 AAC Technology Information Consultancy (Changzhou) Co., Ltd. (Note r)#	PRC	Registered capital US$574,296,000	Investment holding
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (Note l)#	PRC	Registered capital US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note m)#	PRC	Registered capital US$292,000,000	Manufacture and sales of electronic components, research and development
瑞聲開泰(深圳)科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (Note o)#	PRC	Registered capital RMB275,952,000	Sales of products
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (Note p)#	PRC	Registered capital US$141,580,000	Manufacture and sales of acoustic products, research and development
瑞泰精密 (南寧) 科技有限公司 AAC Raytech Module (Nanning) Technologies Co., Ltd. (Note q)#	PRC	Registered capital US$100,000,000	Manufacture and sales of products
Non-wholly owned subsidiary in 2020			
誠瑞光學(常州)股份有限公司 AAC Optics (Changzhou) Co., Ltd. (Notes e&s)	PRC	Registered capital RMB6,768,896,000 (2019: US$362,000,000)	Manufacture and sales of optics products, research and development
誠瑞光學(蘇州)有限公司 AAC Optics (Suzhou) Co., Ltd. (Notes n&s)	PRC	Registered capital RMB1,417,503,000	Manufacture and sales of optics and electronic components, research and development

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise commencing from 20 September 2013 to 19 December 2052.
(b) Wholly-owned foreign enterprise for a term of 30 years commencing from 13 November 2012.
(c) Wholly-owned foreign enterprise for a term of 30 years commencing from 20 September 2016.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing from 28 September 2003.
(e) Non-wholly owned PRC enterprise commencing from 31 December 2008. The name had been changed from 瑞聲通訊科技(常州)有限公司 AAC Communication Technologies (Changzhou) Co., Ltd. to 誠瑞光學(常州)股份有限公司AAC Optics (Changzhou) Co., Ltd. on 27 September 2020.
(f) Wholly-owned foreign enterprise for a term of 50 years commencing from 13 April 2006.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing from 8 May 2007.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing from 29 July 2013. The name had been changed from瑞聲光學科技(常州)有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. to 瑞聲開泰精密科技(常州)有限公司 AAC Kaitai Precision Technologies (Changzhou) Co., Ltd. on 8 June 2020.
(i) Wholly-owned foreign enterprise for a term of 30 years commencing from 28 January 2000.
(j) Wholly-owned foreign enterprise for a term of 20 years commencing from 11 April 2005.
(k) Wholly-owned foreign enterprise for a term of 20 years commencing from 8 November 2006.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing from 13 June 2010.
(m) Wholly-owned foreign enterprise for a term of 20 years commencing from 24 September 2015.
(n) Non-wholly owned PRC enterprise for a term of 35 years commencing from 6 April 2004. The name had been changed from 瑞聲光電科技(蘇州)有限公司 AAC Optronics Technologies (Suzhou) Co., Ltd. to 誠瑞光學(蘇州)有限公司 AAC Optics (Suzhou) Co., Ltd. on 27 October 2020.
(o) Wholly-owned foreign enterprise for a term of 10 years commencing from 29 August 2013.
(p) Wholly-owned foreign enterprise for a term of 20 years commencing from 12 January 2004.
(q) Wholly-owned foreign enterprise for a term of 20 years commencing from 29 November 2017. The name had been changed from 瑞聲精密 (南寧) 科技有限公司 to 瑞泰精密 (南寧) 科技有限公司 on 25 March 2020.
(r) Wholly-owned foreign enterprise for a term of 20 years commencing from 10 October 2019.
(s) The subsidiaries are non-wholly owned enterprise from July 2020 and the Group's interests had been diluted from 100% to 82.02% during the year, excluding share incentive scheme of AAC Optics.

* Directly wholly-owned subsidiary
\# Indirectly wholly-owned subsidiary

The above table lists the subsidiaries of the Company which, in the opinion of the management, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the management, results in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

40. PRINCIPAL SUBSIDIARIES (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Country of Establishment/ operations	Proportion of ownership interests and voting rights held by the Group		Loss attributable to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				RMB'000	RMB'000	RMB'000	RMB'000
AAC Optics	PRC	82.02%*	100%	(5,503)	–	652,471	–
Individually immaterial subsidiaries with non-controlling interests				(176)	(1)	9,623	9,799
				(5,679)	(1)	662,094	9,799

* Details of change in ownership interest in subsidiaries are disclosed in note 28, excluding share incentive scheme of AAC Optics.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Unsecured notes RMB'000	Bank loans RMB'000	Consideration payable in relation to acquisition of additional interests in subsidiaries RMB'000	Lease liabilities RMB'000	Dividend payable RMB'000	Interest payable RMB'000	Contingent settlement provision RMB'000	Total RMB'000
At 1 January 2019	–	5,920,361	11,676	75,291	2	10,545	–	6,017,875
Bank loans raised	–	3,234,355	–	–	–	–	–	3,234,355
Repayment of bank loans	–	(3,497,570)	–	–	–	–	–	(3,497,570)
Foreign exchange translation	(20,710)	62,061	192	6,537	–	–	–	48,080
Amortisation of upfront fee for bank loans	–	6,492	–	–	–	–	–	6,492
Issuance of unsecured notes	2,706,185	–	–	–	–	–	–	2,706,185
Consideration paid	–	–	(11,868)	–	–	–	–	(11,868)
Addition of lease liabilities	–	–	–	458,554	–	–	–	458,554
Repayment of lease liabilities	–	–	–	(133,308)	–	–	–	(133,308)
Dividend declared	–	–	–	–	1,530,919	–	–	1,530,919
Dividend paid	–	–	–	–	(1,530,919)	–	–	(1,530,919)
Payment to derivative financial instrument	–	–	–	–	–	(49,217)	–	(49,217)
Receipt for derivative financial instrument	–	–	–	–	–	50,218	–	50,218
Finance costs	–	–	–	12,337	–	235,873	–	248,210
Interest paid	–	–	–	(12,337)	–	(232,880)	–	(245,217)
At 31 December 2019	**2,685,475**	**5,725,699**	**–**	**407,074**	**2**	**14,539**	**–**	**8,832,789**
Bank loans raised	**–**	**2,460,154**	**–**	**–**	**–**	**–**	**–**	**2,460,154**
Repayment of bank loans	**–**	**(2,103,695)**	**–**	**–**	**–**	**–**	**–**	**(2,103,695)**
Foreign exchange translation	**(173,727)**	**(196,885)**	**–**	**(4,130)**	**–**	**–**	**(198)**	**(374,940)**
Addition of lease liabilities	**–**	**–**	**–**	**558,748**	**–**	**–**	**–**	**558,748**
Repayment of lease liabilities	**–**	**–**	**–**	**(150,962)**	**–**	**–**	**–**	**(150,962)**
Dividend declared	**–**	**–**	**–**	**–**	**106,807**	**–**	**–**	**106,807**
Dividend paid	**–**	**–**	**–**	**–**	**(106,807)**	**–**	**–**	**(106,807)**
Transfer from equity (note 28)	**–**	**–**	**–**	**–**	**–**	**–**	**1,658,000**	**1,658,000**
Payment to derivative financial instrument	**–**	**–**	**–**	**–**	**–**	**(56,488)**	**–**	**(56,488)**
Receipt for derivative financial instrument	**–**	**–**	**–**	**–**	**–**	**25,687**	**–**	**25,687**
Finance costs	**–**	**6,223**	**–**	**27,333**	**–**	**304,992**	**14,010**	**352,558**
Interest paid	**–**	**–**	**–**	**(27,333)**	**–**	**(272,489)**	**–**	**(299,822)**
At 31 December 2020	**2,511,748**	**5,891,496**	**–**	**810,730**	**2**	**16,241**	**1,671,812**	**10,902,029**

Consideration payable in relation to acquisition of additional interests in subsidiaries, interest payable and dividend payable are included in other payables and accruals in note 24.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2020 RMB'000	2019 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,857
Current assets			
Other receivables		**4,877**	6,546
Amounts due from subsidiaries		**3,007,050**	2,906,026
Bank balances and cash		**35,979**	419,433
		3,047,906	3,332,005
Current liabilities			
Other payables		**(22,626)**	(12,371)
Government grants		**(448)**	–
		(23,074)	(12,371)
Net current assets		**3,024,832**	3,319,634
Total assets less current liabilities		**4,196,689**	4,491,491
Non-current liabilities			
Unsecured notes		**(2,511,748)**	(2,685,475)
Government grants		**(1,306)**	–
		(2,513,054)	(2,685,475)
Net assets		**1,683,635**	1,806,016
Capital and reserves			
Share capital	31	**98,135**	98,135
Reserves		**1,585,500**	1,707,881
		1,683,635	1,806,016

Movement of reserves

	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	36,438	(79,202)	33,428	1,726,111	1,716,775
Profit and total comprehensive income for the year	–	–	–	1,798,710	1,798,710
Dividend declared	–	–	–	(1,530,919)	(1,530,919)
Shares repurchased	–	(277,456)	–	–	(277,456)
Shares cancelled	(36,438)	356,658	–	(319,449)	771
At 31 December 2019	**–**	**–**	**33,428**	**1,674,453**	**1,707,881**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(15,574)**	**(15,574)**
Dividend declared	**–**	**–**	**–**	**(106,807)**	**(106,807)**
At 31 December 2020	**–**	**–**	**33,428**	**1,552,072**	**1,585,500**

5-Year Financial Summary

RESULTS	2016 RMB'000	2017 RMB'000	2018 RMB'000 (Note 1)	2019 RMB'000 (Note 2)	**2020** **RMB'000**
	Year ended 31 December				
Revenue	15,506,828	21,118,566	18,131,153	17,883,757	**17,140,219**
Reported profit before taxation	4,632,990	5,996,297	4,310,302	2,552,422	**1,647,599**
Taxation	(608,555)	(671,120)	(514,417)	(330,048)	**(146,571)**
Reported profit	4,024,435	5,325,177	3,795,885	2,222,374	**1,501,028**
Attributable to:					
Owners of the Company – reported	4,025,665	5,324,579	3,795,885	2,222,375	**1,506,707**
Non-controlling interests	(1,230)	598	–	(1)	**(5,679)**
	4,024,435	5,325,177	3,795,885	2,222,374	**1,501,028**
Reported Basic EPS	RMB3.28	RMB4.35	RMB3.11	RMB1.84	**RMB1.25**
Adjusted recurring Basic EPS	RMB3.28	RMB4.35	RMB3.08	RMB1.82	**RMB1.25**
Full year dividend	HK$1.47	HK$2.10	HK$1.43	HK$0.40	**HK$0.30**
Non-GAAP financial measure of non-recurring gains and/or losses:					
Adjustment related to the Group's one-off financial asset investment in AMS, note 17(ii) on page 138:					
i. Deduct the gains on one-off settlement of final earn-out consideration	–	–	(147,830)	–	**–**
ii. Add back the losses (deduct the fair value gains) on financial assets at fair value through profit and loss	–	–	118,881	(19,234)	**–**
Non-GAAP measure of recurring profit before taxation, as adjusted	4,632,990	5,996,297	4,281,353	2,533,188	**1,647,599**
Non-GAAP measure of recurring profit attributable to owners of the Company, as adjusted	4,025,665	5,324,579	3,766,936	2,203,141	**1,506,707**
Non-GAAP measure of basic recurring EPS, as adjusted	RMB3.28	RMB4.35	RMB3.08	RMB1.82	**RMB1.25**

5-Year Financial Summary

ASSETS AND LIABILITIES	2016 RMB'000	2017 RMB'000	2018 RMB'000 (Note 1)	2019 RMB'000 (Note 2)	**2020 RMB'000**
			As at 31 December		
Total assets	24,257,204	30,721,946	29,869,166	34,207,292	**38,911,308**
Total liabilities	(10,042,407)	(13,171,006)	(10,935,068)	(14,846,300)	**(17,090,473)**
Net assets	14,214,797	17,550,940	18,934,098	19,360,992	**21,820,835**
Attributable to:					
Owners of the Company	14,188,879	17,550,940	18,934,098	19,351,193	**21,158,741**
Non-controlling interests	25,918	–	–	9,799	**662,094**
	14,214,797	17,550,940	18,934,098	19,360,992	**21,820,835**

Notes:

(1) In 2018, the Group had applied IFRS 9 and IFRS 15. Accordingly, certain information for the years ended 31 December 2016 and 2017 may not be comparable to the years ended 31 December 2018, 2019 and 2020 as such information was prepared under IAS 39 and IAS 18.

(2) In 2019, the Group had applied IFRS 16. Accordingly, certain information for the years ended 31 December 2016, 2017 and 2018 may not be comparable to the year ended 31 December 2019 and 2020 as such information was prepared under IAS 17.

Investors Information

STOCK CODES

HKEx: 2018
Bloomberg: 2018: HK
Reuters: 2018.HK
ISIN: KYG2953R1149

MAJOR MARKET INDEXES

I. Constituent stock of the Hang Seng Index and included in other sub-indexes:
- Composite LargeCap Index
- Composite Industry Index (Industrials)
- Large-Mid Cap Momentum Comprehensive Index
- Large-Mid Cap Quality Select Index
- SCHK China Technology Index
- High Beta Index
- TECH Index (effective from July 2020)

II. Constituent stock of the Hang Seng Corporate Sustainability Index and included in other sub-indexes:
- Corporate Sustainability Index (Mainland and HK)
- HSI ESG Index
- ESG 50 Index (effective from July 2020)

III. Constituent stock of the FTSE4Good Index (effective from June 2020)

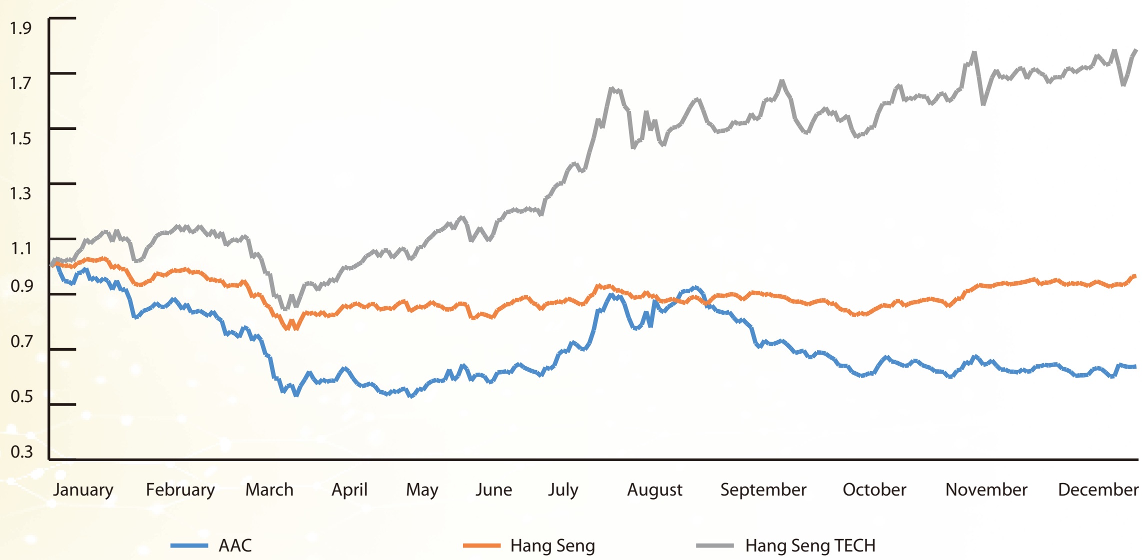
IV. MSCI China Index

MARKET CAPITALIZATION AND SHARE PRICE PERFORMANCE

As at 31 December 2020, the market capitalization of listed shares of the Company was approximately HK$52.4 billion or US$6.76 billion based on the total number of 1,208,500,000 issued shares of the Company and the closing price of HK$43.40 per share.

The daily average number of traded shares was approximately 12.3 million shares over an approximate free float of 713.2 million shares in 2020. The average closing price was HK$48.04 per share, an increase of 1.8% when compared with the average of 2019. The highest closing price was HK$70.00 per share on 2 January 2020 and the lowest was HK$35.85 per share on 4 May 2020.

1-year relative performance of the Company vs Hang Seng Index from 1 January 2020 to 31 December 2020 is set out below:



Base: 31 December 2019 closing = 1.0
Source: Bloomberg

Investors Information

In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial period ended 31 December 2020 and has continued to maintain the public float as at the date of this annual report.

KEY DATES FOR SHAREHOLDERS

11–14 May 2021	Book Closure Period for AGM
14 May 2021	2021 First Quarter Results Announcement
14 May 2021	2021 AGM
August 2021	2021 Interim Results Announcement
November 2021	2021 Third Quarter Results Announcement

Any changes to these dates in 2021 will be published on the websites of the Stock Exchange and the Company.

FINANCIAL REPORTS

The Company's financial reports are printed in English and Chinese language and are available at the Company's website: www.aactechnologies.com and on the designated website of Hong Kong Exchange and Clearing Limited at www.hkexnews.hk. The registered shareholders who registered directly with Hong Kong branch share registrar and transfer office, Computershare will receive the financial reports in printed form. Non-registered shareholders who are not directly registered with Computershare but through CCASS will receive a letter to choose to receive the financial reports in printed form or by electronic means. Non-registered shareholders who have chosen to receive the financial reports using electronic means and who for any reason have difficulty in receiving or gaining access to the financial reports will promptly upon request be sent a printed copy free of charge.

Non-registered shareholders may at any time change their means of receipt of the financial reports by reasonable notice in writing (not less than seven days) to the Company or Computershare at the address stated in "Corporate Information" of this annual report or via e-mail (aac.ecom@computershare.com.hk).

CONTACT INVESTOR RELATIONS

Address: Unit 1605–7, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong
Tel: +852 3470 0060
Fax: +852 3470 0103
Email: aac2018@aactechnologies.com

Official IR wechat group:

Definition and Glossary

Abbreviations	Meanings
General	
12m ECL	12-month ECL
AAC/AAC Technologies/the Company	AAC Technologies Holdings Inc.
ACM	Association for Computing Machinery
AGM	Annual General Meeting
Articles	The articles of association of the Company
ASP	Average selling price
Board	The board of directors of the Company
CAPEX	Capital expenditure
CCASS	Central Clearing and Settlement System
CEO	Chief Executive Officer
CG Code	Corporate Governance Code
CGU(s)	Cash-generating unit(s)
Code Provision(s)	Code Provisions of the CG Code
Committees	Committees of the Board
Computershare	Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COVID-19	Novel Coronavirus
CSRC	The China Securities Regulatory Commission
Deloitte	Deloitte Touche Tohmatsu
Director(s)	The director(s) of the Company
EBITDA	Profit (Earnings) before interest, tax, depreciation and amortization
ECL	Expected credit losses
ED	Executive Director
EGM	Extraordinary General Meeting
EIT Law	Law of the PRC on Enterprise Income Tax
EPS	Earnings per share
ERA	Enterprise Risk Assessment
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GRI	Global Reporting Initiative
HKEx/Hong Kong Stock Exchange/ Stock Exchange	The Stock Exchange of Hong Kong Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKMA	Hong Kong Monetary Authority
HKSAs	Hong Kong Standards on Auditing
HNTE	High-New Technology Enterprises
Hong Kong Companies Ordinance/CO	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Hong Kong Listing Rules/Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
HR	Human Resources
IAS	International Accounting Standard
IEEE	Institute of Electric and Electronic Engineers
IFRSs	International Financial Reporting Standards

Definition and Glossary

Abbreviations	Meanings
INED(s)	Independent non-executive Director(s)
IR	Investor Relations
ISO14001	The International Standard that specifies requirements for an effective environmental management system (EMS)
ISO27001	The International Standard that sets out the specification for an information security management system (ISMS)
IT	Information Technology
Memorandum	Memorandum of Association of the Company
Model Code	Model Code for Securities Transactions by Directors of Listed Issuer under Appendix 10 of the Hong Kong Listing Rules
Q3 2020	The third quarter of 2020
Q4 2020	The fourth quarter of 2020
P/S	Price-to-Sales
ROA	Return on average total assets
ROE	Return on average equity
R&D	Research & Development
SA8000	An international social certification standard for organizations across the globe
SDGs	Sustainable Development Goals
SFO	Securities and Futures Ordinance
Share Award Scheme/AAC Share Award Scheme/Scheme	The Employee's Share Award Scheme adopted by the Board on 23 March 2016
Shareholders	The shareholders of the Company
The Code	HKICPA's Code of Ethics for Professional Accountants
The Group	AAC Technologies Holdings Inc. and its subsidiaries
ppts	Percentage points
YoY	Year-on-Year
China/PRC	People's Republic of China
Hong Kong/Hong Kong SAR	Hong Kong Special Administrative Region of PRC
US/America	United States of America
HKD/HK$	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of PRC
SGD	Singapore dollars, the lawful currency of the Republic of Singapore
USD/US$	US Dollars, the lawful currency of United States

Definition and Glossary

Abbreviations	Meanings
Industry	
5G	5th generation mobile network
7P	7 plastic lenses
COBIT	Control Objectives for Information and related Technology
IoE	Internet of Everything
IoT	Internet of Things
LDS	Laser direct structuring
MEMS	Micro Electro-Mechanical Systems
MSCI	Morgan Stanley Capital International
RF	Radio Frequency
SLS	Super Linear Structure
SNR	Signal to noise ratio
TCFD	Task Force on Climate-related Financial Disclosure
TTL	Total track length
TTM	Trailing-twelve-month
TWS	True wireless stereo
UNGC	United Nations Global Compact
WLG	Wafer-level glass