



**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

**2018**  
INTERIM REPORT



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

AAC Technologies is a leading total solution-provider offering cutting-edge advanced miniaturized technology components to the consumer electronics industry worldwide. AAC Technologies believes that, continuously enhancing the Company's core competitiveness in line with market changes, constantly strengthening technology platforms and proactively introducing innovative solutions are the basic strategies to raise the Company's intrinsic value.

As the leading global supplier of miniaturized acoustic components, we provide a broad range of miniature speaker modules, speakers, receivers and MEMS microphones. AAC Technologies also delivers integrated solutions across multiple segments incorporating haptic vibrators, precision components and optical lens through continuous technology innovation. Leveraging on the global research and development centers and technical support offices in key markets, the Company serves a large number of geographically diverse customers in smart devices such as smartphones, tablets, wearables and ultra-slim notebooks.



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Non-executive Director

Ms. Wu Ingrid Chun Yuan

### Independent Non-executive Directors

Mr. Koh Boon Hwee (Board Chairman)  
Mr. Poon Chung Yin Joseph  
Mr. Tan Bian Ee  
Mr. Au Siu Cheung Albert  
Mr. Kwok Lam Kwong Larry

## AUDIT AND RISK COMMITTEE

Mr. Au Siu Cheung Albert (Chairman)  
Mr. Poon Chung Yin Joseph  
Mr. Kwok Lam Kwong Larry

## REMUNERATION COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)  
Mr. Tan Bian Ee  
Mr. Au Siu Cheung Albert

## NOMINATION COMMITTEE

Mr. Tan Bian Ee (Chairman)  
Mr. Poon Chung Yin Joseph  
Mr. Kwok Lam Kwong Larry

## AUTHORIZED REPRESENTATIVES

Mr. Pan Benjamin Zhengmin  
Mr. Mok Joe Kuen Richard

## COMPANY SECRETARY

Mr. Lo Tai On

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISORS

Woo, Kwan, Lee & Lo  
Baker & McKenzie

## 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

Century Yard, Cricket Square, Hutchins Drive  
P. O. Box 2681, George Town  
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  
Citibank, N.A.  
Ping An Bank  
The Hongkong and Shanghai Banking Corporation Limited

## STOCK CODE

2018

## WEBSITE

[www.aactechnologies.com](http://www.aactechnologies.com)

## FINANCIAL YEAR END

31 December

# INTERIM REVIEW

For 1H 2018, global smartphone shipments reported a year-on-year 2.4% decline as smartphone penetration saturates. The sluggish market, in particular, the weaker than expected sales of smartphone units in the second quarter eliminated the year-on-year Company's growth recorded in the first quarter. This downturn has caused a short-term impact on the Company's business. The Company recorded a 2.5% decrease in revenue to RMB8.4 billion versus RMB8.6 billion for 1H 2017.

In terms of gross margin performance, the appreciation of the RMB contributed 3.0 percentage points of the 4.3 percentage points decline in gross margin. The other adverse factor was a change of product mix. Hence, gross profit for 1H 2018 amounted to RMB3.1 billion, a decrease of RMB446 million from RMB3.5 billion for 1H 2017.

Net profit for 1H 2018 was RMB1.8 billion, net margin recorded a decline of 3.5 percentage points to 21.1% from 24.6%. There was a modest rise in operating expenses, mainly due to targeted high level of R&D spending relating to future products and the increase in administration costs for Group's expansion.

The second half is the traditional peak period in the smartphone industry with more new devices to be launched in the market. In fact in 1H 2018, Android customers have pursued more product breakthroughs, enabling the Company's advanced solutions to gain wider traction in the market, and, the Company's revenue and profit generated from Android customers showed a continual increase of their percentage contribution to the Group's business.

## PERFORMANCE OF BUSINESS SEGMENTS

The Company continues to build a more diversified product mix to drive revenue growth with a more balanced customer portfolio. At present, the two core business segments, Acoustic (Dynamic components) and Haptic and precision components/precision mechanical, contributed 51% and 41% of total sales respectively. We believe that, in addition to the two existing core segments, Optics and Micro Electro-Mechanical Systems ("MEMS") segments will also be important growth drivers for the Company in the near future.

### Achievement in Acoustics

Thanks to a better product mix, despite the overall weak market in 1H 2018, acoustic sales grew 4% year-on-year. With stand-alone receivers and speakers being upgraded to speaker module designs, the continued migration for a better stereo sound has created trends of increasing average selling price ("ASP"). Hence, correspondingly, in 1H 2018, sales of receivers and speakers were down, but a solid growth of more than 16% in sales of speaker modules was achieved driving the overall business growth of this segment as a result of increment in both shipments and ASP.

The Super Linear Structure (the "SLS"), which offers better audio performance in terms of higher fidelity and stronger bass has continued to widen market penetrations. The existing generation of the SLS platform already delivers a new milestone in acoustics. The Company's proprietary structural design incorporates an upgrade roadmap leading to mini-HiFi performance. The Company expects that next generations of the SLS platform will also be adopted by most customers and is planning to expand its existing production capacity for meeting increasing demand from higher market adoption.

The existing and future acoustic platforms will further strengthen the Company's leading position in miniaturised acoustic technologies and drive acoustic revenue growth. We believe we are capable of improving the current gross margin of 37.5% through continual better product mix and production efficiency gain from volume growth.

# INTERIM REVIEW

## Penetration of Haptic and Precision Components/Precision Mechanical

During 1H 2018, the combined haptic and precision components/precision mechanical segment reported revenue of RMB3.4 billion, a decrease of 17% from the same period of 2017.

Although sales of haptics in 1H 2018 were adversely impacted by reduced shipment volume, in particular weaker customers' units sales, the Company believes that this technology platform has potential for significant growth opportunities. New upgrade haptic solutions such as designs for virtual key button with pleasing aesthetics and rich tactile feedback for gaming application are in increasing demand. In addition, the Company's electromagnetic expertise behind haptics are gainfully employable for the design of new features such as stepping-motor designs already adopted by Android smartphones. Integrating with invested software knowledge, the Company's haptic solutions continue to advance, and, are expected to be adopted among more Android smartphones in providing business growth for haptics.

The Audio Display Actuator, another proprietary solution, leveraged on the Company's core haptics capabilities, provides an innovative solution for the poreless design of full-screen devices. With aesthetically-pleasing full screen designs being the new trend for smartphones, the audio display solution adopted by the Company's customers has created market wide positive interests.

Such clear upgrading and new mechanical features will drive future demand of new haptic and precision components. With further customers' diversification and specs cycle upgrade driving up ASPs and shipment volume expansion for haptic and precision components, the Company believes that it is capable of delivering higher gross profit margin.

The precision mechanical segment continued to acquire new customers and expand market share. The Company's metallic frames and casings design for mid and top-tier devices have continued to increase penetration in the PRC Android market. The Company has developed advanced precision moulding and glass processing know-how in resolving the challenging new 3D cover glass design requirements of the next generation smartphones. This precision mechanical segment is expected to continue to gain market share and generate higher rate of returns as no significant CAPEX investment would be required for future revenue growth.

In view of the above, the Company expects the gross margin of 39.6% for 1H 2018 of the combined two segments can be further improved in due course.

## Delivering the Next-Generation Optical Specifications

The Company has built a unique, advanced and highly efficient manufacturing system for wafer-level glass (the "WLG") hybrid lens and plastic lens. Revenue of this segment for 1H 2018 derived from sales of plastic lens, amounted to RMB241 million.

Our plastic lens's monthly production capacity of 20 million is fully utilized and there are plans for further sizeable expansion. We believe production yields and margins will continue to improve when capacity expands. The production expertise, as well as capacity, from plastic lens will serve us well in preparation for scaling up production of the WLG hybrid lens.

Smartphone brands are constantly looking for the next generation innovative optical features to create their differentiation in the market. The Company's WLG hybrid lens solution offers a strong development roadmap to deliver such superior and outstanding optical performance. Volume shipments of hybrids lens solutions are expected to commence in the second half of 2018. Differentiation with hybrid lens solutions will enable the Company to become a key player in the optics market. This optic segment, currently accounting for 3% of total revenue of the Group, will become a major source of profit.

# INTERIM REVIEW

## Vertical Integration of MEMS Components

MEMS components segment's revenue increased by 25% year-on-year to RMB344 million on the back of shipment growth.

The Company focuses on technology upgrade and the vertical integration of production. Not only have we strengthened in-house capabilities on MEMS devices by acquisition of IP designs portfolio in 2017, we continue to allocate R&D resources into MEMS component technologies for developing more advanced applications, such as more precise and farther voice recognition ability. This strategy also enables the Company's footprint to extend from smartphones into smart speaker areas. Going forward, the Company will offer a broader range of solutions, meeting requirements from different tiers of customers and gaining market share.

The increasing adoption of the Company's proprietary MEMS designs and digital ASIC chips will improve the Company's competitiveness with a favourable cost structure. We believe this strategy will strengthen our market position and achieve a gross margin expansion.

## STRATEGY

AAC Technologies' core competencies in miniaturized technologies are knowledge in electromagnetic mechanism and advanced precision manufacturing capabilities.

Our proven technology platforms and early stage investments help us to develop disruptive innovation technologies with focused R&D roadmaps. We aim to deliver next-generation products with differentiated performance. This will provide business growth with high margins returns.

We offer flexible and efficient solutions to our customers. The Company is constantly improving cost controls, establishing optimized large-scale facilities, integrating design and engineering expertise and enhancing automation efficiency. Meanwhile, we continue with the implementation of big-data production analysis and embarkation on high-return re-investments.

Being a technology leader in the industry, the Company aims to improve its products' gross margins, optimize fixed assets deployment, and enhance utilization and efficiency. We strive to achieve the long term goal of increasing return on net assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Summary of First Half Results

For 1H 2018, the Group's total revenue reached RMB8.4 billion, representing a year-on-year decrease of 2.5%. The gross margin declined by 4.3 percentage points from 41.0% in 1H 2017 to 36.7% as at the review period. The decrease of gross profit margin was primarily due to the appreciation in the RMB. In 1H 2018, RMB appreciated 7.2% year-on-year which affected 3.0 percentage points of the overall 4.3 percentage points decrease in gross margin. As a result, gross profit for 1H 2018 decreased by RMB446 million to RMB3.1 billion, from RMB3.5 billion for 1H 2017.

During 1H 2018, there were no changes in taxation laws and regulations that materially impacted the Group's tax expenses. However, the efficient tax structure of the Group has brought about favorable actual effective tax rate in 1H 2018 to drop to 10.9% from 12.9% of the previous corresponding period.

Net profit stood at RMB1.8 billion in 1H 2018. There was a one-off net investment gain related to listed shares held, which along with favorable taxation, helped to mitigate the impact of the drop in gross margin and the modest rise in operating expenses. Net profit margin declined by 3.5 percentage points to 21.1% from 24.6% in 1H 2017.

## INTERIM DIVIDEND

The Company is in a solid financial position, and has continued to improve its working capital during 1H 2018. The Company's operating cash flow has increased by 63% year-on-year. The Board has declared an interim dividend of HK\$0.40 (30 June 2017: HK\$0.40) per ordinary share, which is the same amount as the corresponding period last year. The interim dividend will be paid on Thursday, 27 September 2018 to shareholders of record on Friday, 14 September 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has always emphasized financial discipline and continued to maintain a strong liquidity position. In May 2018, Moody's Investors Service Limited assigned first-time "Baa1" issuer rating with a stable rating outlook to the Company. Cash flows from/(used in) our operating, investing and financing activities, summarised for the six months ended 30 June 2018 and 2017, are as below:

	For the six months ended 30 June	
	2018	2017
	RMB million	RMB million
Net cash from operating activities	3,810.2	2,337.2
Net cash used in investing activities	(2,458.0)	(2,224.7)
Net cash used in financing activities	(2,228.0)	(878.1)

### Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from Group's sales. Cash outflows are related to the raw materials purchases, payroll, selling and distribution expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB3,810.2 million for 1H 2018 and RMB2,337.2 million for 1H 2017. The increase in the net cash generated from operating activities was mainly attributable to the improvement in the reduction in the amount of trade receivables and inventories. The Group will continue to monitor and look for sensible improvements in this metric.



# MANAGEMENT DISCUSSION AND ANALYSIS

## i. Trade Receivables and Payables

As at 30 June 2018, although turnover days of trade receivables increased by 11 days to 99 days as compared to 31 December 2017, the trade receivables decreased by RMB2.2 billion to RMB3.5 billion, generated strong cash inflow. 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 RMB3,371.1 million (31 December 2017: RMB5,300.3 million), RMB113.1 million (31 December 2017: RMB320.5 million) and RMB43.4 million (31 December 2017: RMB91.1 million) respectively. The Company has received subsequent settlement totalling RMB1,456.6 million up to 31 July 2018, representing 41.3% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days rose by 1 day to 124 days as compared to 31 December 2017. Aging of trade payables based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB2,305.0 million (31 December 2017: RMB3,878.6 million), RMB636.4 million (31 December 2017: RMB497.3 million) and RMB17.1 million (31 December 2017: RMB22.5 million) respectively.

## ii. Inventory Turnover

Although the inventory turnover days increased to 108 days as at 30 June 2018 from 89 days as at 31 December 2017, the increase in the inventory turnover days was mainly made for strategic inventory preparation. As at 30 June 2018, the inventories have decreased by RMB411 million, also contributed to positive effect of cash flow.

## Investing Activities

Net cash invested in 1H 2018 and 1H 2017, amounted to RMB2,458.0 million and RMB2,224.7 million, respectively. Investing activities are focused on CAPEX programs per the Group's business progress. Such CAPEX will include acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for upgrades and capacity expansion. For 1H 2018 and 1H 2017, total CAPEX incurred were respectively RMB2,270.9 million and RMB2,329.0 million.

The Group will continue to invest in CAPEX over time 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 budgets approved by the Board.

## Financing Activities

The Group recorded net cash used in financing activities of approximately RMB2,228.0 million for 1H 2018. Major outflows were dividends paid to shareholders of RMB1,751.4 million (1H 2017: RMB1,247.0 million). For 1H 2018, the Group recorded net outflow from bank borrowings, new bank borrowings raised of RMB3,068.3 million (1H 2017: RMB3,787.8 million) and repayment of bank loans of RMB3,442.2 million (1H 2017: RMB3,075.7 million).

## Cash and Cash Equivalents

As at 30 June 2018, the unencumbered cash and cash equivalents of the Group amounted to RMB3,144.8 million (31 December 2017: RMB4,034.1 million), of which 62.5% (31 December 2017: 57.4%) was denominated in US dollar, 29.5% (31 December 2017: 34.8%) was denominated in RMB, 2.6% (31 December 2017: 5.5%) was denominated in Hong Kong dollar, 2.3% (31 December 2017: 0.3%) was denominated in Singapore dollar, 1.4% (31 December 2017: 0.4%) was denominated in Euros, 0.6% (31 December 2017: 0.9%) was denominated in Japanese Yen, and 1.1% (31 December 2017: 0.7%) was denominated in other currencies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gearing Ratio and Indebtedness

As at 30 June 2018, the Group's gearing ratio was 20.9% (31 December 2017: 20.5%), which is calculated by dividing total loans and borrowings by total assets. Netting off cash and cash equivalents, net gearing ratio was 9.9% (31 December 2017: 7.3%).

The short-term bank loans and long-term bank loans of the Group as at 30 June 2018 amounted to RMB3,489.2 million (31 December 2017: RMB4,349.4 million) and RMB2,485.0 million (31 December 2017: RMB1,940.5 million) respectively.

Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements and capital expenditure of the Group.

## Charges on Group Assets

Apart from bank deposits amounting to RMB3.2 million that were pledged to banks mainly in relation to purchase equipment as at 30 June 2018 (31 December 2017: RMB9.0 million), no other Group assets were charged to any financial institutions.

## MAJOR CUSTOMERS AND SUPPLIERS

During 1H 2018, the aggregate sales attributable to the Group's five largest customers comprised approximately 85.0% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 44.9% of the Group's total revenue from sales.

During 1H 2018, the aggregate purchases attributable to the Group's five largest suppliers were 25.9% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 8.1% of the Group's total purchases.

As at 30 June 2018, Ms. Wu Ingrid Chun Yuan ("Ms. Wu"), a 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 period and up to the date of this report, had Ms. Wu's interests in the customer exceeded 1%. The Capital Group Companies, Inc. holding 12.11% of the Company's share capital, had beneficial interests in two of the Group's five largest customers and one of the Group's five largest suppliers. These two customers and the one supplier have the usual trading terms as any other customers and suppliers of the Group.

To the knowledge of the Directors of the Company, both Ms. Wu and The Capital Group Companies, Inc. have never been directors of these customers or the suppliers nor involved in their management.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

As at 30 June 2018, the Group employed 38,176 permanent employees, a decrease of 27% from 52,171 permanent employees as at 31 December 2017, due to adoption of automation and enhancement of production efficiency.

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 Hong Kong, Taiwan, Singapore, South Korea, Japan, India, Vietnam, Philippines, the US, Denmark and Finland.

The Company is committed to invest in talents to develop innovative products for next generation designs. The Company has already established various R&D centers in Asia, Europe and North America, including a long-established collaboration with Nanjing University, and others, on many different projects. Latest addition to the list is a R&D center in Hong Kong Science Park which is expected to start operation in Q4 2018.

## OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2018, the Group did not enter into any material off-balance sheet transactions.

## KEY RISK FACTORS

Since 2012 the Company has embarked on the journey of building an enterprise risk management (the "ERM") system with a view to enhancing the risk management across the whole Company. In 2018, the Company has procured and allocated more resources to continue to refine the ERM approach in order to allow management to identify and prioritize the key risks affecting the achievement of the Company's business objectives and assess how they are currently being managed for identifying improvement opportunities.

Certain key risks factors affecting the Group are outlined below. The list is non-exhaustive and there may be other risks 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.

### Risks Pertaining to the Smartphones Segment

A substantial part of the Group's revenue is derived in the smartphone segment of the consumer mobile devices market. The overall global market for smartphones is expected to contract this year. A continual contraction in the global smartphones market may adversely affect our operation results and financial condition. 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 85.0% of the Group's total revenue, are all related to the dynamic consumer mobile devices industry, characterized by innovation-driven and user experience-oriented. Loss of or changes in market positions 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' specs upgrade, has implemented standardized procedures for handling all forms of customer information to ensure it is not disclosed to third parties, and has strong established relationships with these major customers; all of them have been our customers for over 7 years.

The credit terms granted are in the range of 60- to 90-day periods and are in line with those granted to other customers.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operational and Obsolescence Risks

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

We believe that the Company has a seasoned process in ensuring that we meet design specifications and quality requirements and there are many over-lapping core design and production competencies that the Company is leveraging on. This will put the Company on the best competitive position in terms of design capacity and timeliness to deliver and enhancement of user experience. Also, the Company continuously treats information security as one of the strategic topics 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 consistently reinvested significant resources on research and development to build broad sustainable technology roadmaps and intellectual property portfolios.

The Company has put in place a quality management system. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. The Company will continue to improve internal process capability and set up a solid base for continual improvement in product reliability.

## Foreign Exchange Risks

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

The cash inflow to the Group in denominations of the two currencies are mostly, over time, in balanced proportions. In addition, various bank facilities have been arranged in RMB and USD to meet our daily operating expenses and capital investment requirements. It is the Group's consistent policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. Hence, in our operating business model, the Group's revenue is mostly matched to the currencies of the outlay; which in the past few years, had mitigated the impact of foreign exchange fluctuations. 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.

## 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 capital expenditures that are associated with the expansion of the Group. Upward fluctuations in interest rates increase the costs of both existing and new loans.

# MANAGEMENT DISCUSSION AND ANALYSIS

There was heightened expectation of USD interest rate hikes since beginning of the year. The Federal Reserve, in total, raised interest rates two times with the result that the Group's effective interest rate on fixed rate bank loans was higher in the range of 2.60% to 4.35% per annum, while the effective interest on variable-rate bank loans was from 1.27% to 3.51% per annum. Although to some extent, the Group's USD deposits served as a natural hedge to this emerging risk of interest rate increase, the Group has entered into interest rate swap contracts in order to manage the variable interest rate risk of a 5-year term loan facility. The Group's financial assets include bank balances and cash, pledged bank deposits, trade and other receivables, amounts due from related parties, 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.

## Trade Frictions between China and the US

China and the US have been imposing additional tariffs on goods traded between them. 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 US. So far, the Group's business operations have not experienced any significant immediate impact arising from the trade frictions. But the Group will continue to monitor any new developments as well as assessing any adverse and material business implications which might arise.

## PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operation of the Group as set out in this report are historical in nature and past performance is not a guarantee of future performance. This 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 report; 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 that the Company operates in. However, such comparisons should not be relied upon as sole indicators of the longer term performance such as annual results.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE POLICY AND PRACTICES

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of the shareholders and stakeholders of the Company, but also a key component in the Company's sustainable long term performance and value creation. The Board is at the centre of the Company's corporate governance structure, regularly reviewing, refining and overseeing enforcement of the Company's corporate governance principles, policies and practices. The 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 and internal control systems.

Based on regular reviews of the Company's actual performance against the Corporate Governance Code ("CG Code") in Appendix 14 of the Listing Rules, the Board is satisfied that for the six months ended 30 June 2018, the Company fully complied with all the code provisions of the CG Code ("Code Provision(s)"). Furthermore, the Company aims to go beyond the Code Provisions compliance by embracing the latest best and recommended corporate governance practices, such as linking a significant proportion of the executive Directors' remuneration to corporate and individual performances, quarterly reporting of financial results and having effective whistleblowing policy and process in place.

The Board recognizes the need to continuously adapt and improve the Company's corporate governance policies and practices in light of its 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 of Directors 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

## CHANGE IN DIRECTORS' INFORMATION DISCLOSED UNDER RULE 13.51B(1) OF THE LISTING RULES

Change in Directors' information since the date of the 2017 annual report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Au Siu Cheung Albert, an independent non-executive Director, was appointed as an independent non-executive Director of ZhongAn Virtual Finance Limited on 8 August 2018. ZhongAn Virtual Finance Limited is applying for a Virtual Banking License with the Hong Kong Monetary Authority (the "HKMA"). Upon receiving the HKMA approval, it will be re-named "ZhongAn Bank Limited".

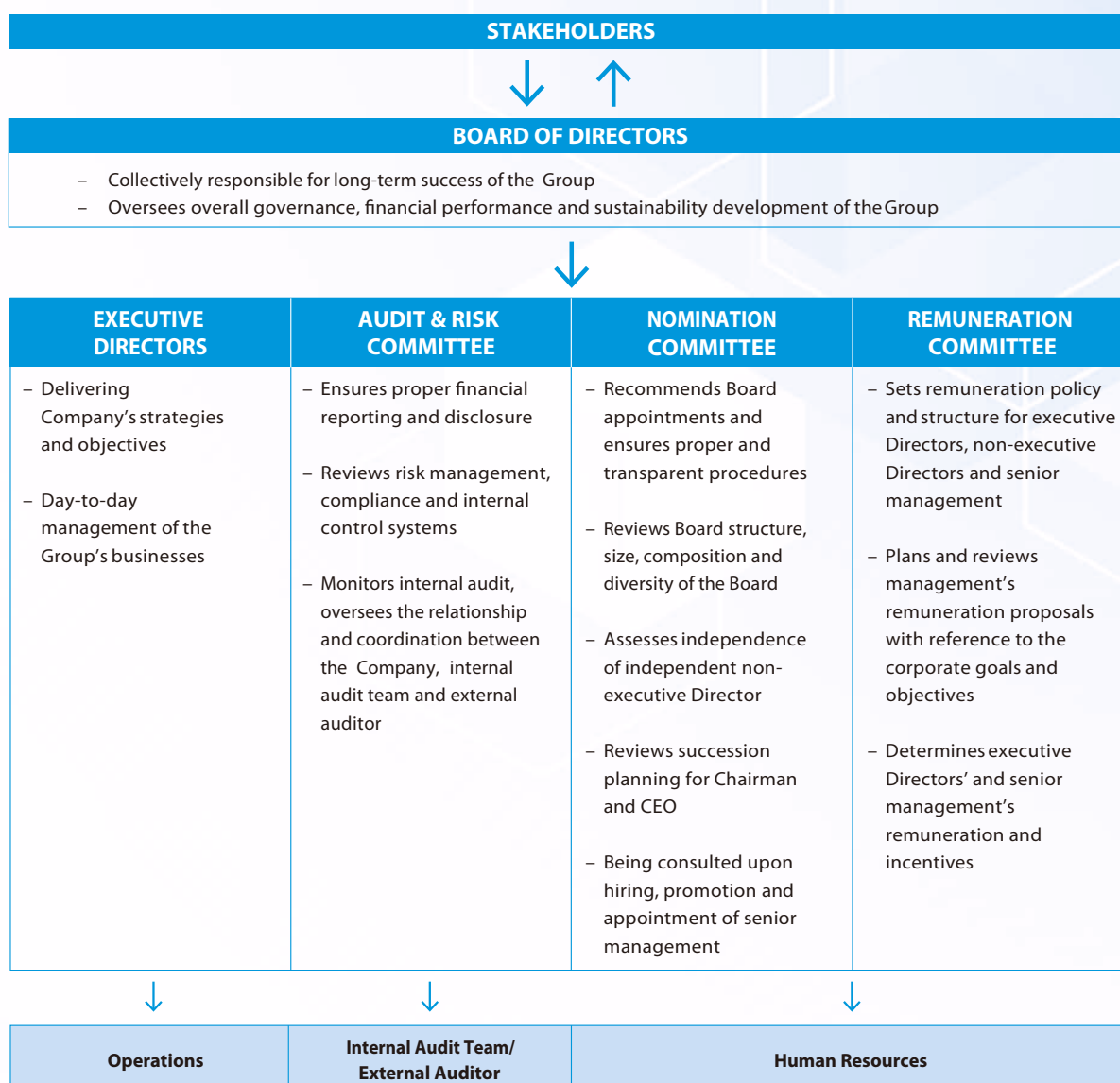
Save as disclosed above, the Directors are not aware of any other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 annual report of the Company.

# CORPORATE GOVERNANCE

## GOVERNANCE STRUCTURE AND BOARD COMMITTEES

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.

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:



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.

# CORPORATE GOVERNANCE

## Audit and Risk Committee

### Composition

The Audit and Risk Committee (formerly known as the Audit Committee) was established in April 2005. The composition of the Committee has been changed effective from 28 May 2018. Mr. Poon Chung Yin Joseph, independent non-executive Director of the Company, retired as the Chairman but remains to be a member of the Committee. Mr. Koh Boon Hwee, Board Chairman, and Ms. Wu Ingrid Chun Yuan, non-executive Director of the Company, also retired from the Committee. The Company's two newly appointed independent non-executive Directors, namely Mr. Au Siu Cheung Albert and Mr. Kwok Lam Kwong Larry have been respectively appointed as Committee Chairman and Committee member.

### 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 between the Company, internal audit team and external auditor and reviewed this interim report with external auditor.

## Nomination Committee

### Composition

The Nomination Committee was established in April 2005 and is currently chaired by Mr. Tan Bian Ee (an independent non-executive Director) with two other members who are also independent non-executive Directors, namely, Mr. Poon Chung Yin Joseph and Mr. Kwok Lam Kwong Larry. Mr. Kwok was appointed to replace Ms. Chang Carmen I-Hua who was retired as Committee member on 28 May 2018.

### 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. A truly diverse Board will include and make good use of differences in the knowledge, skills, 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, 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.



# CORPORATE GOVERNANCE

The current Board's composition under diversified perspectives was summarized as follows:  
(the numbers in brackets refer to the number of Directors under the relevant category)

<b>Designation</b>	Executive Director (2)		Non-executive Director (1)	
	Independent Non-executive Director (5)			
<b>Gender</b>	Male (7)		Female (1)	
<b>Nationality</b>	Australia (1)		British (1)	
	Canadian (1)		Chinese (1)	
	Singapore (3)		USA (1)	
<b>Age group</b>	71-80 (1)	61-70 (4)	51-60 (1)	41-50 (2)
<b>Length of service (year)</b>	11-15 (4)		6-10 (2)	0-5 (2)
<b>Skills, knowledge and professional experience</b> <sup>(Note)</sup>	Investment (7)		Management & Commercial (7)	
	Technologies & Manufacturing (4)		Accounting & Finance (6)	
	Investor Relations (4)		Banking (2)	
	Human Resources (2)		Legal (1)	
<b>Academic background</b>	University (6)			

Note: Directors may possess multiple skills, knowledge and professional experience.

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

## Roles and Authority

The Nomination Committee has the responsibility to review, advise and make recommendations to the Board on matters in relation to composition, structure, size and diversity of the Board, appointment and re-appointment of Directors and assessment on independence of independent non-executive Directors, and ensure the proper and transparent procedures for appointment and re-appointment of Directors, succession planning for Chairman and CEO. The Committee is also consulted upon hiring, promotion and appointment of senior management.

The current practice to appoint new Directors falls on the Nomination Committee. The Committee will identify, assess and nominate suitable candidates, including those proposed by the shareholders. Criterion include knowledge, skill and experience. The Company has adopted a nomination policy for setting up a formal, considered and transparent procedure to help identifying and nomination of candidates for independent non-executive Directors. All valid nomination of candidates, accompanied with details of their biographical backgrounds, would be presented to the Board for consideration. 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.

## Remuneration Committee

### Composition

The Remuneration Committee has currently three members. All of them are independent non-executive Directors, namely Mr. Poon Chung Yin Joseph was appointed as Committee Chairman replacing Mr. Koh Boon Hwee who retired as Committee Chairman on 28 May 2018. The other two members are Mr. Tan Bian Ee and Mr. Au Siu Cheung Albert who was appointed as Committee member to replace Ms. Chang Carmen I-Hua who retired on 28 May 2018.

### 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 annual general meeting. 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.

# CORPORATE GOVERNANCE

## Share Award Scheme

The Company on 23 March 2016 had adopted the AAC Share Award Scheme (the “Scheme”) constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the “Trustee”) as 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 and vote at the general meeting of the Company) 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.

Since the date of adoption of the Scheme and up to 30 June 2018, no new share has been issued to the Trustee and no share of the Company had been purchased by the Trustee nor any share awards had been granted to any employees.

## LEGAL AND REGULATORY COMPLIANCE

### Compliance

The Board had reviewed the Company’s legal framework on implementing policies and practices to ensure the operations of the Company are in compliance with legal and regulatory requirements of all applicable jurisdictions as well as the Listing Rules.

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.

By adopting and implementing policies and practices, the Company has maintained a remarkably good record relating to environmental compliance and anti-corruption. The Company’s strong compliance framework helps the Company to enhance its corporate governance, financial performance and operating efficiency.

The Company and its subsidiaries are subject to laws and regulations affecting their domestic and international operation. The General Data Protection Regulation (the “GDPR”), which came into application in the European Union (the “EU”) on 25 May 2018, provides a new data protection legal framework for the EU and considerably increases the scope and impose higher obligations on regulatory compliance for organizations which process data on behalf of data controllers. In order to cope with the requirements of the GDPR, the Company has already implemented appropriate measures to ensure all of its subsidiaries which are required to process personal data in the EU will comply with the applicable GDPR requirements, including but not limited to identifying internal data controllers and data processors within the Group, entering into appropriate data processing agreements and data transfer agreements, enhancing information security and transfer procedures, maintaining a register of data processing activities and seeking authorization from the controllers before allowing third parties to sub-process personal data.

### 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 for Securities Transaction by Directors of Listed Issuer (the “Model Code”) as mentioned in Appendix 10 to the 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 six months ended 30 June 2018.

# CORPORATE GOVERNANCE

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, 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 Securities and Future Ordinance (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 in Appendix 10 to the Listing Rules, were as follows:

Long positions in ordinary shares of US\$0.01 each of the Company:

Name of Directors of the Company	Capacity	Number of ordinary shares					Total number of shares	Percentage of the Company's issued shares as at 30 June 2018 <sup>(1)</sup>
		Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests		
Mr. Pan Benjamin Zhengmin ("Mr. Pan") <sup>(2)</sup>	Beneficial owner/interest of spouse/interest of controlled corporation/founder of a discretionary trust	69,512,565	-	51,439,440	262,820,525	111,545,122	495,317,652	40.53%
Ms. Wu <sup>(3)</sup>	Beneficial owner/interest of spouse/interest of controlled corporation/founder of a discretionary trust	127,991,931	-	134,828,594	120,952,005	111,545,122	495,317,652	40.53%
Mr. Koh Boon Hwee	Beneficial owner	795,562	-	-	-	-	795,562	0.07%
Mr. Mok Joe Kuen Richard ("Mr. Mok")	Beneficial owner	100,000	-	-	-	-	100,000	0.01%

### Notes:

- (1) Percentage was computed based on the issued 1,222,000,000 shares as at 30 June 2018.
- (2) Mr. Pan beneficially owns 69,512,565 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, a company wholly-owned by Ms. Wu; and (b) 127,991,931 shares which are beneficially 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) 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. They have no discretion over distributions or investments in their trusts until distribution is made to them.

# CORPORATE GOVERNANCE

- (3) Ms. Wu beneficially owns 127,991,931 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:
- (i) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company 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; and (b) 69,512,565 shares which are beneficially owned by Mr. Pan 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. They have no discretion over distributions or investments in their trusts until distribution is made to them.

Other than as disclosed above, as at 30 June 2018, 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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:

Name of shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 30 June 2018 <sup>(1)</sup>
JPMorgan Chase & Co. <sup>(2)</sup>	Beneficial owner/Investment	140,586,986 (L)	7,451,342 (L)	12.11%
	Manager/Trustee/	623,000 (S)	18,358,756 (S)	1.55%
	Approved lending agent	23,274,890 (P)	–	1.90%
The Capital Group Companies, Inc. <sup>(3)</sup>	Interest of controlled corporation	147,995,848 (L)	2,436 (L)	12.11%

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

# CORPORATE GOVERNANCE

Notes:

- (1) Percentage was computed based on the issued 1,222,000,000 shares as at 30 June 2018;
- (2) JPMorgan Chase & Co., through its various 100% controlled corporations (“JPMorgan Group”), is interested in (i) an aggregate of 140,586,986 shares and listed derivative interests of 2,335,794 shares with physically settled, listed derivative interests of 96,000 shares with cash settled, unlisted derivative interests of 2,063,500 shares with physically settled, and unlisted derivative interests of 2,956,048 shares with cash settled in long position; and (ii) an aggregate of 623,000 shares and listed derivative interests of 1,420,000 shares with physically settled, listed derivative interests of 1,012,050 shares with cash settled, unlisted derivative interests of 740,972 shares with physically settled, and unlisted derivative interests of 15,185,734 shares with cash settled in short position. Among them, 111,558,626 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 Interests in Shares and Underlying Shares and Debentures” above.

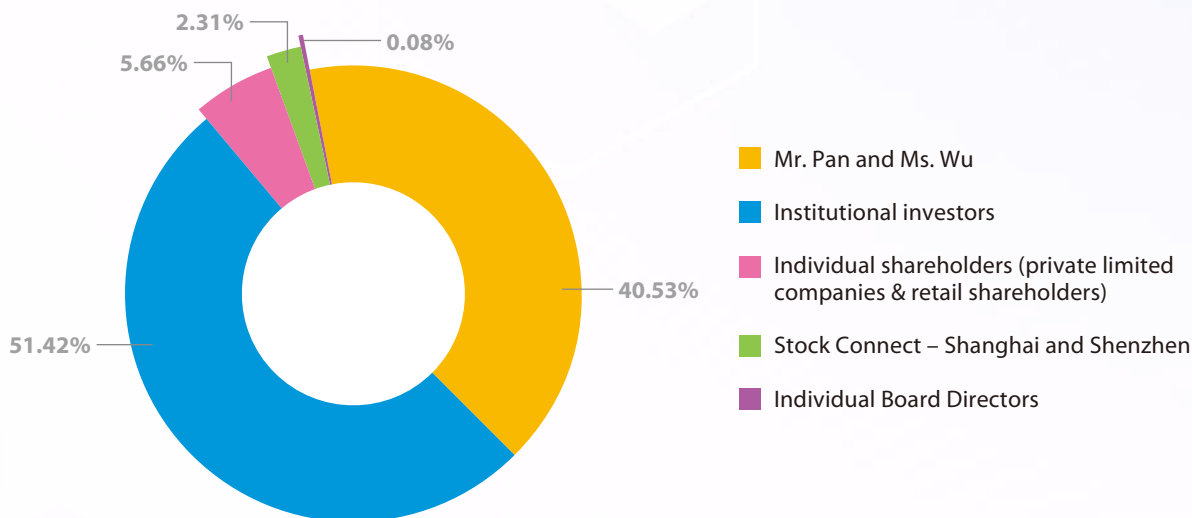
In addition to the above, JPMorgan Chase & Co. is also interested in 23,274,890 shares in lending pool as described in the SFO. The term “lending pool” is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorized to lend and other shares that can be 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.

- (3) The Capital Group Companies, Inc., through its various 100% controlled corporations, is interested in an aggregate of 147,995,848 shares and unlisted derivative interests of 2,436 shares with physically settled in long position.

## SHAREHOLDERS STRUCTURE

A shareholding register analysis was conducted as at 30 June 2018 and further revealed the shareholding structure as follow:

- I) Shareholders by Category: (rounded to nearest 0.01%)



# CORPORATE GOVERNANCE

## II) Shareholders by Domicile:

	<b>% of Total Issued Shares</b>
Hong Kong	60.5
North America	23.7
United Kingdom	4.5
Singapore	3.5
Europe (ex-United Kingdom)	3.2
China	2.8
Rest of World	1.8
<b>TOTAL</b>	<b>100</b>

### Notes:

1. The shareholding in Hong Kong included the interests associated with Mr. Pan and Ms. Wu (40.53%).
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 1,222,000,000 shares in issue as of 30 June 2018.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the six months ended 30 June 2018.

## **CLOSURE OF REGISTER OF MEMBERS FOR INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK\$0.40 (2017: HK\$0.40) per ordinary share for the six months ended 30 June 2018 which will be paid on Thursday, 27 September 2018.

For the purpose of determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, 11 September 2018 to Friday, 14 September 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's 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, not later than 4:30 pm on Monday, 10 September 2018. Shares of the Company will be traded ex-dividend as from Friday, 7 September 2018.

# SUSTAINABILITY

During the course of the first half of 2018, the Company has continued to integrate sustainability into its operations, measuring and managing the risks associated with environmental, social and governance (ESG). It is also determined to identify related opportunities, striving to maximise the positive impact along its value chain. The Company continues to step up efforts in engaging and responding to its key stakeholder groups. In doing so, it aims to map the identified material topics to its operating model, progressing towards sustainability of its operations. Realising the value of sustainability reporting, the Company spares no efforts for ongoing improvement on transparency including expanding reporting boundary, optimising its non-financial data collection management system further, and conducting report verification.

In May this year, the Company published its 2017 Sustainability Report which was prepared in compliance with the disclosure requirements of the core option of the Global Reporting Initiative (GRI) Standards. The Company will continue to align its sustainability performance, and then targets, with the United Nation's Sustainable Development Goals (SDGs). The Company has been included as a constituent of the Hang Seng Corporate Sustainability Index since 2014.

Adhering to a corporate culture of continuous learning, improvement, and innovation, the Group successfully obtained 307 additional patents in the first half of 2018, of which 172 are for the non-acoustic segment, bringing its intellectual property portfolio to a total of 3,057 patents. The Group filed another 850 patent applications, which bring to a total of 1,988 patents pending.

## ENVIRONMENTAL MANAGEMENT

Certifying the environmental management system of its major manufacturing bases in the PRC with ISO 14001 standard, the Company has strictly complied with the environmental laws and regulations in locations where it has operations. In the face of more stringent national environmental laws and regulations in China and around the globe, the Company continues to keep monitoring the latest changes of applicable environmental rules and regulations and optimize its management approach accordingly. During the period under review, the Company was not aware of any material non-compliance of laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

## SUPPLIER MANAGEMENT

Based on a risk-based supply chain assessment methodology, the Company continued to monitor suppliers' performance with regards to the environment, health and safety, and social responsibility during the period under review. This management approach is evaluated on a regular basis. By implementing the supplier code of conduct and conducting capacity building, the Company aims to ensure the business principles, conduct, and standards of its suppliers are aligned with its own. In particular, the raw material procurement contracts require the suppliers to procure materials in accordance with the requirements set out in the Electronic Industry Citizenship Coalition, ensuring there will be no conflict minerals originating from those regions in the Democratic Republic of Congo and its adjoining countries.

## PEOPLE MANAGEMENT

In addition to adhering to one of the Company's core values of "Safety First", and providing a safe and healthy workplace, the Company makes sure the right person is in the right position. The triple-channel training system is able to achieve that by offering clear training roadmaps for the Company's employees in management, technical and professional arenas. Furthermore, to ensure continuous learning of management, the Company has been enrolling our managers in Harvard Business School and China Europe International Business School, equipping senior executives with strategic and global mindsets as well as practical management skills.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte.**

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**TO THE BOARD OF DIRECTORS OF AAC TECHNOLOGIES HOLDINGS INC.**

(incorporated in the Cayman Islands with limited liability)

## Introduction

We have reviewed the condensed consolidated financial statements of AAC Technologies Holdings Inc. (the “Company”) and its subsidiaries set out on pages 23 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by International Accounting Standards Board. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

22 August 2018



# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	1.1.2018 to 30.6.2018 (Unaudited) RMB'000	1.1.2017 to 30.6.2017 (Unaudited) RMB'000
Revenue	3	8,424,381	8,644,272
Cost of goods sold		(5,329,786)	(5,103,082)
Gross profit		3,094,595	3,541,190
Other income, gains and losses	4	91,630	91,564
Gain on final settlement of earn-out consideration	10	147,830	–
Fair value loss on financial assets at fair value through profit or loss	10	(93,056)	–
Distribution and selling expenses		(138,854)	(130,267)
Administrative expenses		(277,708)	(245,127)
Research and development costs		(722,695)	(728,354)
Share of results of associates		–	(3,762)
Exchange loss		(2,367)	(16,431)
Finance costs		(102,671)	(67,727)
Profit before taxation	5	1,996,704	2,441,086
Taxation	6	(218,283)	(313,958)
Profit for the period		1,778,421	2,127,128
Other comprehensive income (expense):			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Fair value changes on equity instruments at fair value through other comprehensive income		32,288	–
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising from translation		(8,934)	(73,433)
Fair value changes on derivative financial instruments		14,589	–
Fair value changes on available-for-sale investments		–	239,223
		37,943	165,790
Total comprehensive income for the period		1,816,364	2,292,918
Profit for the period attributable to:			
Owners of the Company		1,778,421	2,126,824
Non-controlling interests		–	304
		1,778,421	2,127,128
Total comprehensive income for the period attributable to:			
Owners of the Company		1,816,364	2,292,738
Non-controlling interests		–	180
		1,816,364	2,292,918
Earnings per share – Basic	8	RMB1.46	RMB1.73

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	30.6.2018 (Unaudited) RMB'000	31.12.2017 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	14,774,950	13,526,391
Goodwill		167,448	89,217
Prepaid lease payments	9	537,939	538,149
Deposits for acquisition of property, plant and equipment		1,106,077	913,987
Investment properties	9	15,452	16,049
Available-for-sale investments	10	–	751,923
Financial assets at fair value through profit or loss	10	505,704	–
Equity instruments at fair value through other comprehensive income	10	219,520	–
Intangible assets		380,647	255,839
Loan receivable		13,030	19,132
Derivative financial instruments	11	19,027	4,438
		<b>17,739,794</b>	<b>16,115,125</b>
<b>Current assets</b>			
Inventories		2,987,034	3,397,629
Trade and other receivables	12	4,669,734	7,154,960
Amounts due from related companies		3,139	1,776
Taxation recoverable		6,127	9,346
Pledged bank deposits		3,200	9,028
Bank balances and cash		3,231,995	4,034,082
		<b>10,901,229</b>	<b>14,606,821</b>
<b>Current liabilities</b>			
Trade and other payables	13	4,560,357	6,369,178
Contract liabilities		6,789	–
Amounts due to related companies		49,767	47,017
Taxation payable		275,748	331,783
Short-term bank loans	14	3,489,212	4,349,365
		<b>8,381,873</b>	<b>11,097,343</b>
Net current assets		<b>2,519,356</b>	<b>3,509,478</b>
Total assets less current liabilities		<b>20,259,150</b>	<b>19,624,603</b>
<b>Non-current liabilities</b>			
Long-term bank loans	14	2,484,990	1,940,549
Government grants		84,282	87,162
Deferred tax liabilities		74,030	45,952
		<b>2,643,302</b>	<b>2,073,663</b>
Net assets		<b>17,615,848</b>	<b>17,550,940</b>
<b>Capital and reserves</b>			
Share capital	15	99,231	99,231
Reserves		17,516,617	17,451,709
Total equity		<b>17,615,848</b>	<b>17,550,940</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company													Non-controlling interests	Total
	Share capital	Share premium	Treasury shares	Special reserve	Capital reserve	Translation reserve	Investments revaluation reserve	Non-distributable reserve	PRC statutory reserve	Hedging reserve	Retained profits	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2017 (audited)	99,718	746,957	-	1,135	23,391	152,796	-	87,245	357,007	-	12,720,630	14,188,879	25,918	14,214,797	
Exchange differences arising from translation	-	-	-	-	-	(73,309)	-	-	-	-	-	(73,309)	(124)	(73,433)	
Fair value changes on available-for-sale investments	-	-	-	-	-	-	239,223	-	-	-	-	239,223	-	239,223	
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,126,824	2,126,824	304	2,127,128	
Total comprehensive income (expense) for the period	-	-	-	-	-	(73,309)	239,223	-	-	-	2,126,824	2,292,738	180	2,292,918	
Dividends declared (note 7)	-	-	-	-	-	-	-	-	-	-	(1,246,964)	(1,246,964)	-	(1,246,964)	
Shares repurchased (note 15)	-	-	(248,887)	-	-	-	-	-	-	-	-	(248,887)	-	(248,887)	
Shares cancelled (note 15)	(81)	(79,815)	79,896	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(10,758)	(10,758)	(15,817)	(26,575)	
Transfer to reserve	-	-	-	-	-	-	-	-	18,970	-	(18,970)	-	-	-	
At 30 June 2017 (unaudited)	99,637	667,142	(168,991)	1,135	23,391	79,487	239,223	87,245	375,977	-	13,570,762	14,975,008	10,281	14,985,289	
At 31 December 2017 (audited)	99,231	234,771	-	1,135	23,391	(30,841)	436,545	87,245	468,892	4,438	16,226,133	17,550,940	-	17,550,940	
Effects on adoption of new standards (note 2)	-	-	-	-	-	-	(407,428)	-	-	-	407,428	-	-	-	
At 1 January 2018 (restated)	99,231	234,771	-	1,135	23,391	(30,841)	29,117	87,245	468,892	4,438	16,633,561	17,550,940	-	17,550,940	
Exchange differences arising from translation	-	-	-	-	-	(8,934)	-	-	-	-	-	(8,934)	-	(8,934)	
Fair value changes on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	32,288	-	-	-	-	32,288	-	32,288	
Fair value changes on derivative financial instruments	-	-	-	-	-	-	-	-	-	14,589	-	14,589	-	14,589	
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,778,421	1,778,421	-	1,778,421	
Total comprehensive income (expense) for the period	-	-	-	-	-	(8,934)	32,288	-	-	14,589	1,778,421	1,816,364	-	1,816,364	
Dividends declared (note 7)	-	-	-	-	-	-	-	-	-	-	(1,751,456)	(1,751,456)	-	(1,751,456)	
Transfer to reserve	-	-	-	-	-	-	-	-	10,811	-	(10,811)	-	-	-	
At 30 June 2018 (unaudited)	99,231	234,771	-	1,135	23,391	(39,775)	61,405	87,245	479,703	19,027	16,649,715	17,615,848	-	17,615,848	

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		1.1.2018 to 30.6.2018 (Unaudited) RMB'000	1.1.2017 to 30.6.2017 (Unaudited) RMB'000
	NOTES		
Net cash from operating activities		3,810,229	2,337,181
Net cash used in investing activities			
Purchase of property, plant and equipment		(1,294,565)	(1,526,803)
Deposits paid for acquisition of property, plant and equipment		(1,106,077)	(684,315)
Acquisition of a subsidiary	17	(155,079)	–
Acquisition of an equity instrument at fair value through other comprehensive income	10(iii)	(100,000)	–
Placement of time deposits with original maturity over three months		(87,223)	–
Additions to intangible assets		(30,784)	(9,787)
Prepaid rentals on prepaid lease payments		(5,684)	(87,953)
Proceeds from disposal of financial assets at fair value through profit or loss	10(ii)	279,921	–
Interest received		25,760	17,156
Withdrawal of pledged bank deposits		11,330	48,906
Settlement received on earn-out consideration	10(ii)	5,568	–
Contingent consideration paid in respect of an acquisition of a subsidiary		–	(5,041)
Acquisition of an available-for-sale investment		–	(3,562)
Proceeds from disposal of an available-for-sale investment		–	23,419
Other investing cash flows		(1,175)	3,249
		<b>(2,458,008)</b>	<b>(2,224,731)</b>
Net cash used in financing activities			
Bank loans raised		3,068,288	3,787,762
Repayment of bank loans		(3,442,207)	(3,075,688)
Dividends paid	7	(1,751,456)	(1,246,964)
Interest paid		(102,671)	(67,727)
Repurchase of shares	15	–	(248,887)
Acquisition of additional interests in subsidiaries		–	(26,575)
		<b>(2,228,046)</b>	<b>(878,079)</b>
Net decrease in cash and cash equivalents		(875,825)	(765,629)
Cash and cash equivalents at 1 January		4,034,082	3,864,386
Effect of foreign exchange rate changes		(13,485)	(10,637)
		<b>3,144,772</b>	<b>3,088,120</b>
Represented by:			
Bank balances and cash		3,231,995	3,088,120
Less: Time deposits with original maturity over three months		(87,223)	–
Cash and cash equivalents at 30 June		<b>3,144,772</b>	<b>3,088,120</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 1. GENERAL

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of dynamic components
- Sales of haptic and precision components
- Sales of Micro Electro – Mechanical Systems ("MEMS") components
- Sales of other products

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers" (continued)

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

### Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, 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 and 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, haptic and precision components, MEMS components and other products is recognised at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (continued)

#### Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
<b>Current liabilities</b>				
Trade and other payables	(a)	6,369,178	(9,183)	6,359,995
Contract liabilities	(a)	–	9,183	9,183

Note:

- (a) As at 1 January 2018, advances from customers of RMB9,183,000 in respect of sales contracts signed with customers previously included in trade and other payables are reclassified to contract liabilities. The impact on the Group’s condensed consolidated statement of financial position at 30 June 2018, without application of IFRS 15, would be a reclassification of contract liabilities of RMB6,789,000 to trade and other payables.

The application of IFRS 15 has had no material impact on the Group’s retained profits as at 1 January 2018.

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments”

In the current period, the Group has applied IFRS 9 “Financial Instruments” and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The differences between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 “Financial Instruments: Recognition and Measurement”.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Key changes in accounting policies resulting from application of IFRS 9

##### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset 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 fair value through profit or loss (“FVTPL”), except that at the date of initial application/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 (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 “Business Combinations” applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income (“FVTOCI”) criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

##### *Equity instruments designated as at FVTOCI*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments 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 in accordance with IFRS 9, 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.

##### *Financial assets at FVTPL*

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

The Directors of the Company reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group’s financial assets and the impacts thereof are detailed under the heading “Summary of effects arising from initial application of IFRS 9”.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Key changes in accounting policies resulting from application of IFRS 9 (continued)

##### *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, loan receivable, 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 these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

##### *Significant increase in credit risk*

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Key changes in accounting policies resulting from application of IFRS 9 (continued)

##### *Significant increase in credit risk (continued)*

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.

The Group considers that default has occurred when the instrument 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.

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

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

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.

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed below.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Key changes in accounting policies resulting from application of IFRS 9 (continued)

##### Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge 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.

#### Summary of effects arising from initial application of IFRS 9

The table below illustrates the effect arising from application of IFRS 9 at the date of initial application, 1 January 2018. Line items or reserves that were not affected by the changes have not been included.

	Note	Available-for-sale investments RMB'000	Financial assets at FVTPL RMB'000	Equity instruments at FVTOCI RMB'000	Investments revaluation reserve RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017 – IAS 39		751,923	–	–	436,545	16,226,133
Effect arising from initial application of IFRS 9	(a)	<u>(751,923)</u>	<u>665,084</u>	<u>86,839</u>	<u>(407,428)</u>	<u>407,428</u>
Opening balance at 1 January 2018		<u>–</u>	<u>665,084</u>	<u>86,839</u>	<u>29,117</u>	<u>16,633,561</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Summary of effects arising from initial application of IFRS 9 (continued)

Notes:

##### (a) Available-for-sale investments (“AFS investments”)

###### *From AFS investments to equity instruments at FVTOCI*

The Group elected to present in OCI for the fair value changes of all its equity investments other than AMS AG (“AMS”) previously classified as available-for-sale investments, of which a carrying value of RMB27,243,000 was related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, equity investments with a carrying value of RMB86,839,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB27,243,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. None of the fair value gains/losses relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investments revaluation reserve as at 1 January 2018 because the carrying value under IAS 39 approximates to the fair value as at 1 January 2018. The fair value gains of RMB29,117,000 relating to those investments previously carried at fair values continued to be accumulated in investments revaluation reserve.

###### *From AFS investments to financial assets at FVTPL*

At the date of initial application of IFRS 9, the Group’s equity investments in AMS with a carrying value of RMB665,084,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of RMB407,428,000 relating to those investments were transferred from the investments revaluation reserve to retained profits.

##### (b) Hedge accounting

The Group applies the hedge accounting requirements of IFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship as all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition.

The initial application of IFRS 9 in the current interim period has had no material effect on the amounts reported and/or disclosures relating to the Group’s hedging instruments as set out in these condensed consolidated financial statements.

##### (c) Impairment under ECL model

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current period, the Group has applied IFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 9 “Financial Instruments” (continued)

#### Summary of effects arising from initial application of IFRS 9 (continued)

Notes: (continued)

#### (c) Impairment under ECL model (continued)

Loss allowance for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank deposits with original maturity of more than three months and bank balances, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under IAS 39.

### Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity’s accounting policies above, the opening condensed consolidated statement of financial position had been restated. The following table summarises the adjustments recognised for the relevant individual line item.

	31 December 2017 RMB’000 (Audited)	IFRS 15 RMB’000	IFRS 9 RMB’000	1 January 2018 RMB’000 (Restated)
<b>Non-current assets</b>				
Available-for-sale investments	751,923	–	(751,923)	–
Financial assets at FVTPL	–	–	665,084	665,084
Equity instruments at FVTOCI	–	–	86,839	86,839
<b>Current liabilities</b>				
Trade and other payables	6,369,178	(9,183)	–	6,359,995
Contract liabilities	–	9,183	–	9,183

## 3. SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group’s chief operating decision maker in order to allocate resources to the segments and assess their performance. The chief operating decision maker of the Group has been identified as the Chief Executive Officer (“CEO”).

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. The Group’s operating and reportable segments are dynamic components (including miniature speaker modules, receivers and speakers), haptic and precision components, MEMS components and other products (including optics, RF antenna, traditional microphones and headsets), which represent the major types of products manufactured and sold by the Group.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)
<b>Operating and reportable segments</b>		
Segment revenue – recognised at a point in time		
Dynamic components	4,302,244	4,140,723
Haptic and precision components	3,438,336	4,121,832
MEMS components	343,931	275,637
Other products	339,870	106,080
	<u>8,424,381</u>	<u>8,644,272</u>
Segment results		
Dynamic components	1,614,578	1,679,037
Haptic and precision components	1,360,510	1,810,402
MEMS components	66,782	34,408
Other products	52,725	17,343
	<u>3,094,595</u>	<u>3,541,190</u>
Total profit for operating and reportable segments – gross profit	3,094,595	3,541,190
Unallocated amounts:		
Interest income	24,070	26,921
Other income, gains and losses	67,560	64,643
Gain on final settlement of earn-out consideration	147,830	–
Fair value loss on financial assets at fair value through profit or loss	(93,056)	–
Distribution and selling expenses	(138,854)	(130,267)
Administrative expenses	(277,708)	(245,127)
Research and development costs	(722,695)	(728,354)
Exchange loss	(2,367)	(16,431)
Finance costs	(102,671)	(67,727)
Share of results of associates	–	(3,762)
	<u>1,996,704</u>	<u>2,441,086</u>
Profit before taxation	1,996,704	2,441,086

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as such information is not regularly provided to the CEO for review.

Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administrative expenses, research and development costs, distribution and selling expenses, other income, gains and losses, gain on final settlement of earn-out consideration, fair value loss on financial assets at fair value through profit or loss, share of results of associates and exchange loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)
Greater China* (country of domicile)	3,029,377	2,830,040
Other foreign countries:		
Other Asian countries	1,002,263	715,418
America	4,387,788	5,096,314
Europe	4,953	2,500
	8,424,381	8,644,272

\* Greater China comprises the People's Republic of China (the "PRC"), Hong Kong and Taiwan. Majority of the revenue from Greater China were derived from the PRC.

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

During the period, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB6,453,837,000 (six months ended 30 June 2017: RMB4,214,052,000). No disclosure of the total amount of revenue by each customer and number of customers is disclosed, as in the opinion of the Directors of the Company such disclosure is harmful to the Group's business.

## 4. OTHER INCOME, GAINS AND LOSSES

	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)
Government subsidy income	43,929	54,124
Interest income	24,070	26,921
Others	23,631	10,519
	91,630	91,564

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 5. PROFIT BEFORE TAXATION

	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	15,413	4,794
Reversal for obsolete inventories, included in cost of goods sold	(5,846)	(1,654)
Depreciation	818,635	595,059
Release of prepaid lease payments	5,961	4,055
	<u>          </u>	<u>          </u>

## 6. TAXATION

	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax	162,447	248,112
Other jurisdictions	56,102	66,786
Hong Kong Profits Tax	87	-
	<u>          </u>	<u>          </u>
Deferred tax	218,636 (353)	314,898 (940)
	<u>          </u>	<u>          </u>
	<u>218,283</u>	<u>313,958</u>

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

According to a joint circular of Ministry of Finance and the State Administrative of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from EIT. 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 Detailed Implementation Rules. According to the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong, 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 remains at 10% otherwise. Deferred tax liability on the undistributed profits earned has been accrued at the tax rate of 5% on the expected dividend stream determined by the Directors of the Company.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 6. TAXATION (CONTINUED)

In addition, certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises (“HNTE”) till the dates ranging from 2 November 2018 to 7 December 2020. Pursuant to the EIT Law, those PRC subsidiaries entitled as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

Pursuant to relevant laws and regulations in Singapore, one of the Group’s subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive which is granted based on the fulfillment of carrying out qualifying business activities. This incentive program will expire this year. Agreement for its extension on similar terms for another 10-year period after expiry has been obtained, subject to completion of the formal signing process.

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

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

## 7. DIVIDENDS

During the current interim period, a final dividend of HK\$1.70 per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: final dividend of HK\$1.17 per share in respect of the year ended 31 December 2016) was paid to shareholders of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK\$2,077,400,000 (equivalent to approximately RMB1,751,456,000) (six months ended 30 June 2017: HK\$1,436,760,000 (equivalent to approximately RMB1,246,964,000)).

Subsequent to the end of the interim period, the Directors have resolved that an interim dividend of HK\$0.40 per share (2017 interim dividend: HK\$0.40 per share) will be paid to the shareholders of the Company.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period attributable to owners of the Company of RMB1,778,421,000 (six months ended 30 June 2017: RMB2,126,824,000) and on the weighted average of 1,222,000,000 (six months ended 30 June 2017: 1,227,815,000) number of shares in issue during the period.

No diluted earnings per share is presented as the Group does not have any potential dilutive ordinary shares outstanding.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment of RMB2,073,177,000 (six months ended 30 June 2017: RMB2,475,120,000). Part of the consideration of RMB913,987,000 (six months ended 30 June 2017: RMB918,358,000) was paid up in advance in prior year.

Also, during the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB4,101,000 (six months ended 30 June 2017: RMB3,604,000) for proceeds of RMB3,963,000 (six months ended 30 June 2017: RMB3,659,000) and resulting in a loss on disposal of RMB138,000 (gain on disposal during six months ended 30 June 2017: RMB55,000).

Also, during the period, the Group had additions to prepaid lease payments of RMB5,684,000 (six months ended 30 June 2017: RMB87,953,000).

During the period, depreciation on the investment properties amounted to RMB597,000 (six months ended 30 June 2017: RMB597,000) was charged to the profit or loss. In prior year, the Group transferred certain property, plant and equipment and prepaid lease payments with an aggregate carrying amount of RMB17,243,000 (2018: nil) to investment properties upon the change in use of those properties.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 10. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### (i) Available-for-sale investments

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Unlisted shares	–	27,243
Listed shares	–	724,680
	–	751,923

As detailed in note 2, the Group's available-for-sale investments as at 31 December 2017 have been reclassified to appropriate line items on adoption of IFRS 9.

### (ii) Financial assets at FVTPL

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Listed shares – AMS	505,704	–

The amount represents the Group's investment in AMS. AMS is a Swiss listed company incorporated in Austria and is engaged in the manufacturing of sensor and analogy solutions. In prior interim period, the Group disposed its entire interest in an unlisted investment, Heptagon Advanced Micro-Optics Pte. Ltd. ("Heptagon") to AMS, and in return the Group received certain amount of cash consideration, shares in AMS and earn-out consideration receivable determined based on the milestone relating to revenue of Heptagon.

During the current interim period, AMS has agreed with the previous shareholders of Heptagon to early settle the earn-out consideration arising from the disposal of Heptagon. As a result, the Group received additional shares in AMS with a fair value of RMB213,597,000 as at date of receipt and cash of RMB5,568,000 and resulting in gain on final settlement of earn-out consideration recognised in the profit or loss of RMB147,830,000.

Also, during the interim period, a certain number of AMS shares were disposed in the market for an aggregate proceed of RMB279,921,000. The realised gain on disposal of these shares was RMB17,946,000, which has been included as part of the loss on changes in fair value recognised in the profit or loss during the interim period.

As at 30 June 2018, the fair value of the AMS shares held by the Group, determined by reference to the quoted market bid prices available, amounted to approximately RMB505,704,000 (31 December 2017: RMB665,084,000) and a loss on changes in fair value on the AMS shares of RMB93,056,000 has been recognised in the profit or loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 10. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

### (iii) Equity instruments at FVTOCI

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Unlisted shares	127,636	–
Listed shares	91,884	–
	219,520	–

#### **Unlisted shares**

During the interim period, the Group invested in an investment holding company holding equity interests in a company engaged in producing semiconductor components in integrated circuits and development of intellectual properties, for a consideration of RMB100,000,000.

#### **Listed shares**

The amount represents the Group's investment in a company listed in Japan. As at 30 June 2018, the fair value of the investment determined by reference to the quoted market bid prices available was RMB91,884,000.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
<b>Derivatives financial assets – under hedge accounting</b>		
Interest rate swap contracts	19,027	4,438

The Group entered into the interest rate swap contracts with commercial banks to minimise its exposure to cash flow changes of its floating-rate United States dollars bank loans by swapping floating interest rates to fixed interest rates. The terms of these contracts were negotiated to match with those of the hedged bank loans with the same notional amounts to principal amounts of bank loans, currency and interest rate index. The Directors of the Company consider that the interest rate swap contracts are highly effective hedging instruments and have designated them as cash flow hedging instruments for hedge accounting purpose.

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Net adjustments on cash flow hedges of gain of RMB14,589,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: nil) have been recognised in other comprehensive income and accumulated in equity. The Directors of the Company 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 interim period, the Group has further entered into an interest rate swap contract with a notional amount of US\$100,000,000. All derivatives are measured at fair value.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 12. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment. As at 30 June 2018, included in trade and other receivables, the Group has bank acceptance and commercial bills amounting to RMB77,071,000 (31 December 2017: RMB15,539,000). The following is an aged analysis of trade and bills receivables presented based on the invoice date, which approximates the revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Age		
0 – 90 days	3,371,088	5,300,321
91 – 180 days	113,167	320,466
Over 180 days	43,391	91,146
	3,527,646	5,711,933

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

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

Included in the other receivables are loans made to certain suppliers of RMB30,000,000 (31 December 2017: RMB129,157,000). The amounts carry interest at 4.35% per annum (31 December 2017: 4% to 5% per annum) and majority of the amounts are secured. The amounts are repayable in one year.

## 13. TRADE AND OTHER PAYABLES

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

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Age		
0 – 90 days	2,305,037	3,878,630
91 – 180 days	636,396	497,328
Over 180 days	17,099	22,464
	2,958,532	4,398,422

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 14. BANK LOANS

The variable rate bank loans carry interest ranging from 2.28% to 3.51% (31 December 2017: 1.63% to 2.76%) per annum. The fixed rate bank loans carry interest ranging from 2.90% to 4.35% (31 December 2017: 2.60% to 4.35%) per annum. The Company has issued guarantees to respective banks to secure the borrowings.

## 15. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares at 1 January 2017, 1 January 2018 and 30 June 2018	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2017	1,228,000,000	12,280
Shares repurchased and cancelled	(1,000,000)	(10)
Ordinary shares at 30 June 2017	1,227,000,000	12,270
Shares repurchased and cancelled	(5,000,000)	(50)
Ordinary shares at 31 December 2017, 1 January 2018 and 30 June 2018	1,222,000,000	12,220
		<b>RMB'000</b>
Presented in the condensed consolidated statement of financial position		
As at 1 January 2017		99,718
Shares repurchased and cancelled		(81)
As at 30 June 2017		99,637
Shares repurchased and cancelled		(406)
As at 31 December 2017, 1 January 2018 and 30 June 2018		99,231

During the prior interim period, the Company repurchased a total of 3,000,000 issued ordinary shares of the Company in the market for a consideration of HK\$286,769,000 (equivalent to approximately RMB248,887,000). Out of these repurchased shares, 1,000,000 ordinary shares were cancelled during the period ended 30 June 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 16. SHARE AWARD SCHEME

The Company on 23 March 2016 had adopted the AAC Share Award Scheme (the “Scheme”) constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the “Trustee”), in which employees may be selected by the Board of Directors to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the Board of the Company, or purchased on the Stock Exchange, by the Trustee of the trusts declared in the Trust Deed.

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

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

During the period, no shares were 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 since adoption of the Scheme.

## 17. ACQUISITION OF A SUBSIDIARY

### Acquisition of 深圳市軒盈通電子有限公司 (“Xuanyingtong”)

On 17 May 2018, the Group completed the acquisition of the entire registered capital of Xuanyingtong for a consideration of RMB164,131,000.

#### Consideration transferred as at date of acquisition

	RMB'000
Total consideration	164,131
Less: consideration payable	<u>(4,083)</u>
Cash paid at date of acquisition	<u>160,048</u>

Acquisition-related costs amounting to RMB142,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in the “administrative expenses” line item in the condensed consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 17. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Acquisition of 深圳市軒盈通電子有限公司 (“Xuanyingtong”) (continued)

Assets acquired and liabilities recognised on 17 May 2018 (date of acquisition) are as follows:

	RMB'000
Intangible assets	113,800
Inventories	4,870
Trade and other receivables	137,149
Bank balances and cash	4,969
Trade and other payables	(146,438)
Deferred tax liability	(28,450)
	<u>85,900</u>
Net cash outflow on acquisition:	
Total consideration	(164,131)
Consideration payable, included in other payables	4,083
Cash and cash equivalents acquired	4,969
	<u>(155,079)</u>
Goodwill arising on acquisition:	
Purchase consideration	164,131
Less: fair value of identified net assets acquired	(85,900)
	<u>78,231</u>

The fair value of the intangible assets acquired was estimated by applying an income approach. The key model inputs used in determining the fair value were assumed discounted rate of 16.6% and assumed long-term sustainable growth rate of 3%.

The fair value of trade and other receivables at the date of acquisition amounted to RMB137,149,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB137,149,000 at the date of acquisition. All contractual receivables at acquisition date are expected to be recoverable.

Goodwill arose in the acquisition of Xuanyingtong because the cost of acquisition includes a control premium. In addition, the consideration paid for the acquisition effectively included an amount in relation to the benefit of expected synergies, revenue growth and the customer relationship of Xuanyingtong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 17. ACQUISITION OF A SUBSIDIARY (CONTINUED)

### Impact of acquisition on the results of the Group

Included in the profit for the six months ended 30 June 2018 is a profit of RMB3,269,000 attributable from Xuanyingtong. Revenue for the six months ended 30 June 2018 includes RMB97,222,000 attributable from Xuanyingtong.

Had the acquisition of Xuanyingtong been completed on 1 January 2018, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been RMB8,634,826,000 and the amount of the profit for the six months ended 30 June 2018 would have been RMB1,777,566,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Xuanyingtong been acquired at the beginning of the period, the Directors of the Company have calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

## 18. CAPITAL COMMITMENTS

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	612,653	627,334
– acquisition of a subsidiary	–	164,131



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 19. RELATED PARTY TRANSACTIONS

Apart from the balances disclosed elsewhere in these condensed consolidated financial statements, during the period the Group had the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	1.1.2018	1.1.2017
		to	to
		30.6.2018	30.6.2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
		(Note 2)	
Companies controlled by close family members of the substantial shareholders of the Company (Note 1)	Purchase of raw materials	53,143	62,874
	Property rentals paid	12,430	11,540
	Property rentals received	781	743
	Sales of raw materials	554	1,780
		USD'000	USD'000
		(Unaudited)	(Unaudited)
Companies controlled by close family members of the substantial shareholders of the Company (Note 1)	Property rentals paid	90	92

Notes:

- (1) The substantial shareholders of the Company have shareholdings which give them significant influence over the Company. They are also Directors of the Company.
- (2) Amounts of the related party transactions during the period ended 30 June 2018 include applicable value-added tax.

During the period, the emoluments paid to the key management personnel of the Company, who represent the Directors of the Company, were RMB8,492,000 (six months ended 30 June 2017: RMB4,462,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique (s) and key input (s)
	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)		
Interest rate swap contracts	19,027	4,438	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.
Available-for-sale investments – Listed shares	–	724,680	Level 1	Quoted bid prices in an active market.
Financial assets at FVTPL – Listed shares	505,704	–	Level 1	Quoted bid prices in an active market.
Unquoted equity investments	27,636	–	Level 3	Income approach. The discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.
Unquoted equity investments	100,000	–	N/A (Note)	N/A (Note)
Equity instruments at FVTOCI – Listed shares	91,884	–	Level 1	Quoted bid prices in an active market.

Note: The investment was made near the interim period end, the Directors of the Company are of the opinion that the fair value of the investment as at 30 June 2018 approximates to the acquisition cost.

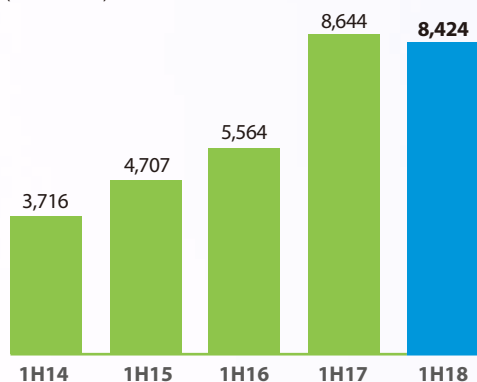
The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. During the interim period, the movement in level 3 fair value financial assets represents the increase as a result of the adoption of IFRS 9 detailed in note 2 and certain additions to unquoted equity investments.

# HALF-YEAR FINANCIAL HIGHLIGHTS

(Detailed financial summary of results and assets and liabilities of the Group for 2014-2018 on page 50)

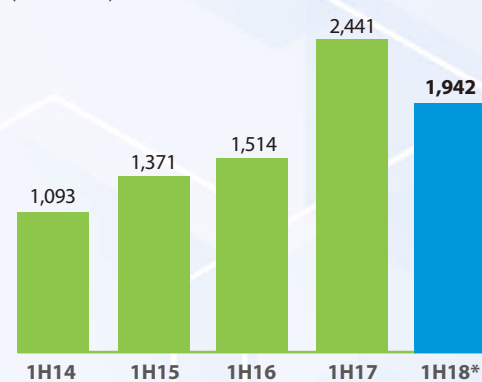
## Revenue

(RMB million)



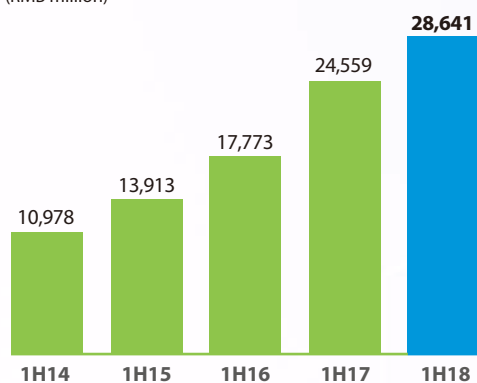
## Pre-tax Profit

(RMB million)



## Total Assets

(RMB million)



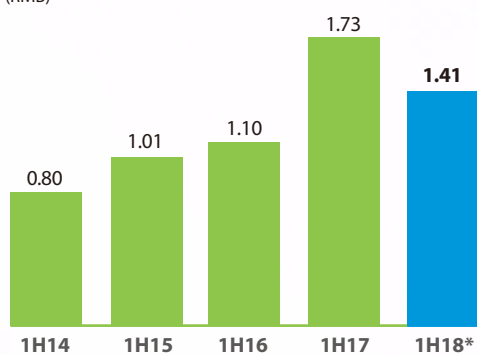
## Net Assets

(RMB million)



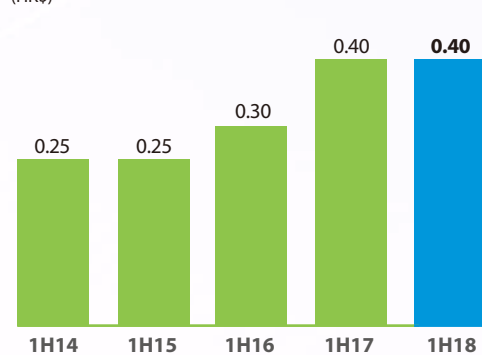
## Basic EPS

(RMB)



## Interim Dividend

(HK\$)



\* The figures of 1H18 were adjusted for one-off items.

# FIVE-YEAR FINANCIAL SUMMARY

	Six months ended 30 June				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
<b>RESULTS</b>					
Revenue	3,716,020	4,706,784	5,563,560	8,644,272	8,424,381
Reported profit before taxation	1,092,670	1,371,207	1,514,270	2,441,086	1,996,704
Recurring profit before taxation	1,092,670	1,371,207	1,514,270	2,441,086	1,941,930
Taxation	(114,853)	(127,850)	(159,712)	(313,958)	(218,283)
Reported profit	977,817	1,243,357	1,354,558	2,127,128	1,778,421
Attributable to:					
Owners of the Company					
– reported	979,753	1,245,605	1,354,779	2,126,824	1,778,421
– recurring	979,753	1,245,605	1,354,779	2,126,824	1,723,647
Non-controlling interests	(1,936)	(2,248)	(221)	304	–
	977,817	1,243,357	1,354,558	2,127,128	1,778,421
Reported Basic EPS	RMB0.80	RMB1.01	RMB1.10	RMB1.73	RMB1.46
Adjusted recurring Basic EPS	RMB0.80	RMB1.01	RMB1.10	RMB1.73	RMB1.41
Interim dividend	HK\$0.25	HK\$0.25	HK\$0.30	HK\$0.40	HK\$0.40
	As at 30 June				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	10,978,468	13,912,680	17,772,772	24,559,362	28,641,023
Total liabilities	(2,864,639)	(4,207,902)	(6,041,520)	(9,574,073)	(11,025,175)
Net assets	8,113,829	9,704,778	11,731,252	14,985,289	17,615,848
Attributable to owners of the Company	8,060,513	9,663,216	11,705,272	14,975,008	17,615,848
Non-controlling interests	53,316	41,562	25,980	10,281	–
	8,113,829	9,704,778	11,731,252	14,985,289	17,615,848

# INVESTORS INFORMATION

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 2018

Bloomberg: 2018: HK

Reuters: 2018.HK

ISIN: KYG2953R1149

## MAJOR MARKET INDEXES

Constituent stock of the Hang Seng Index and included in its sub-indexes:

- Corporate Sustainability Index and (Mainland and HK) Corporate Sustainability Index
- China (Hong Kong-listed) 25 Index
- Composite LargeCap Index
- Composite Industry Index (Information Technology) and IT Hardware Index
- High Beta Index

MSCI China Index

FTSE Hong Kong Index

## MARKET CAPITALIZATION AND SHARE PRICE PERFORMANCE

As at 30 June 2018, the market capitalization of listed shares of the Company was approximately HK\$135.0 billion or US\$17.2 billion based on the total number of 1,222,000,000 issued shares of the Company and the closing price of HK\$110.5 per share.

The daily average number of traded shares was approximately 7.2 million shares over an approximate free float of 726 million shares in the first half of 2018. The average closing price was HK\$134.28, an increase of 50% when compared with the average of the first half of 2017. The highest closing price was HK\$160.6 per share on 12 March 2018 and the lowest was HK\$101.5 per share on 27 June 2018.

6-month Relative Performance of the Company vs Hang Seng Index and Hang Seng IT Hardware Index from 1 January to 30 June 2018 is set out below:



Base: 31 December 2017 = 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 30 June 2018 and has continued to maintain the public float as at the date of this interim report.

## KEY DATES FOR SHAREHOLDERS

22 August 2018	2018 Interim Results Announcement
13 September 2018	2018 Interim Report available on the Company's website
11-14 September 2018	Book Closure Period for Interim Dividend
14 September 2018	Record Date for 2018 Interim Dividend
27 September 2018	Payment of 2018 Interim Dividend
Mid-November 2018	2018 Third Quarter Results Announcement
End-March 2019	2018 Annual Results Announcement

Any changes to these dates in 2018/2019 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](http://www.aactechnologies.com) and on the designated website of Hong Kong Exchange and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk). The registered shareholders who registered directly with Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited ("Computershare") will receive the financial reports in printed form. Non-registered shareholders who are not directly registered with Computershare but through Central Clearing and Settlement System ("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 7 days) to the Company or Computershare at the address stated in "Corporate Information" of this interim report or via e-mail ([aac.ecom@computershare.com.hk](mailto:aac.ecom@computershare.com.hk)).

## CONTACT INVESTOR RELATIONS

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Official IR wechat group:



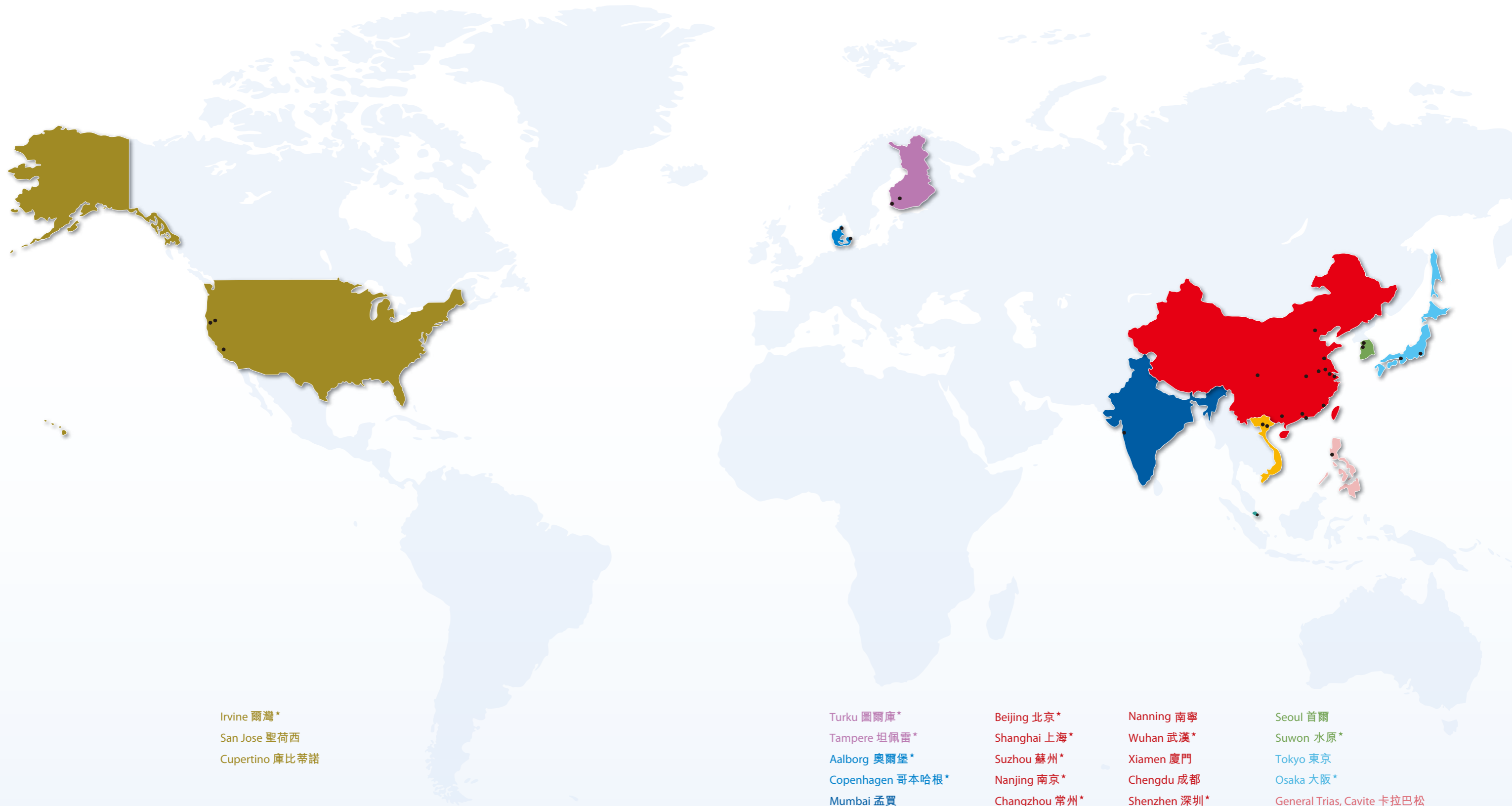
# GLOSSARY

Abbreviations	Meanings
<b>Industry</b>	
12m ECL	12-month ECL
AMS	AMS AG
ASP	Average selling price
ECL	Expected credit losses
Heptagon	Heptagon Advanced Micro-Optics Pte. Ltd.
MEMS	Micro Electro - Mechanical Systems
R&D	Research & Development
SLS	Super Linear Structure
WLG	Wafer-level glass
Xuanyingtong	深圳市軒盈通電子有限公司 (XuanYingTong Electronics*)
<b>General</b>	
1H	For the six months ended 30 June
AAC / AAC Technologies / the Company	AAC Technologies Holdings Inc.
AFS investments	Available-for-sale investments
CCASS	Central Clearing and Settlement System
CEO	Chief Executive Officer
CG Code	Corporate Governance Code
China / PRC	People's Republic of China
Code Provision(s)	Code Provisions of the CG Code
Computershare	Computershare Hong Kong Investor Services Limited
EIT Law	Law of the PRC on Enterprise Income Tax
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European Union
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDPR	General Data Protection Regulation
GRI	Global Reporting Initiative
HKMA	Hong Kong Monetary Authority
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
HNTE	High-New Technology Enterprises
IAS 34	International Accounting Standard 34 "Interim Financial Reporting"
IFRSs	International Financial Reporting Standards
Model Code	Model Code for Securities Transactions by Directors of Listed Issuer under Appendix 10 of the Listing Rules
OCI	Other comprehensive income
RMB	Renminbi, the lawful currency of PRC
Scheme	AAC Share Award Scheme
SDGs	Sustainable Development Goals
SFO	Securities and Future Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
The Group	AAC Technologies Holdings Inc. and its subsidiaries
Trustee	Bank of Communications Trustee Limited
US	United States
USD / US\$	US Dollars, the lawful currency of United States

\* for identification purposes only

# WORLDWIDE LOCATIONS

# 全球分佈



Irvine 爾灣\*  
San Jose 聖荷西  
Cupertino 庫比蒂諾

Turku 圖爾庫\*  
Tampere 坦佩雷\*  
Aalborg 奧爾堡\*  
Copenhagen 哥本哈根\*  
Mumbai 孟買  
Vinh Phuc 永福  
Bac Ninh 北寧

Beijing 北京\*  
Shanghai 上海\*  
Suzhou 蘇州\*  
Nanjing 南京\*  
Changzhou 常州\*  
Shuyang 沭陽

Nanning 南寧  
Wuhan 武漢\*  
Xiamen 廈門  
Chengdu 成都  
Shenzhen 深圳\*  
Hong Kong 香港

Seoul 首爾  
Suwon 水原\*  
Tokyo 東京  
Osaka 大阪\*  
General Trias, Cavite 卡拉巴松  
Singapore 新加坡\*

\* With R&D Function 設有研發中心