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
ANNUAL REPORT

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

www.aactechnologies.com

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This annual report is printed on environmentally friendly paper

Contents

The Company issues a stand-alone Sustainability Report every year since 2013. The Sustainability Report discloses the details of sustainability performance, initiatives and its progress on environmental, social and governance issues for the year. The Sustainability Report for 2018 will be published on 18 April 2019. Please visit the website www.aactechnologies.com to download the Sustainability Reports.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman of the Board)
Mr. Au Siu Cheung Albert (Appointed on 1 February 2018)
Mr. Tan Bian Ee
Mr. Poon Chung Yin Joseph
Mr. Kwok Lam Kwong Larry (Appointed on 1 February 2018)
Mr. Peng Zhiyuan (Appointed on 1 January 2019)
Mr. Zhang Hongjiang (Appointed on 1 January 2019)
Ms. Chang Carmen I-Hua (Retired on 28 May 2018)

Non-executive Director

Ms. Wu Ingrid Chun Yuan

AUDIT AND RISK COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

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
Bank of Communications
Citibank, N.A.
Ping An Bank
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

2018

WEBSITE

www.aactechnologies.com

FINANCIAL YEAR END

31 December

Core Development Strategies

AAC Technologies is

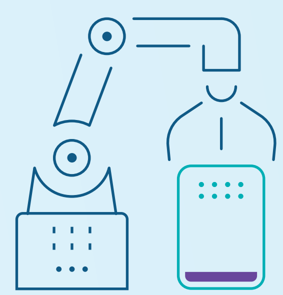
offering advanced solutions enabled by its cutting-edge and proprietary technologies to the global consumer electronics industry

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

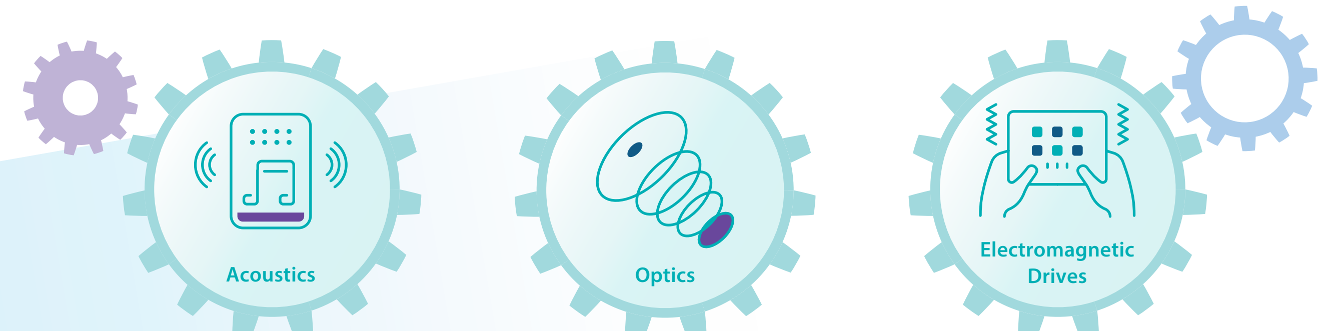
Strategy

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

"Two-pronged" approach – R&D and manufacturing



Versatile platforms for technology and equipment



Continue to conduct R&D on core technologies for maintaining the leading position in the global technology market:

Since inception, the Group has identified technology-leader as its competitive strategy. With investment in R&D accounting for 7% to 8% of annual revenue, the Group has set up 15 R&D centers all over the world, with 3,982 R&D talents, and, by 31 December 2018, obtained 3,366 patents, as well as 2,968 patent applications.

Continuously develop ultra-precision production techniques and enhance per capita output:

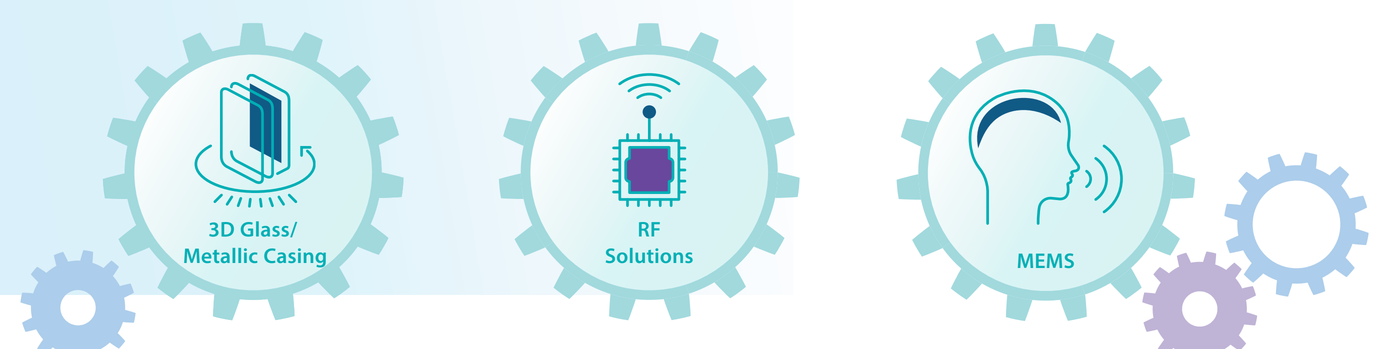
The Group has implemented an integrated process of R&D and manufacturing with independent R&D initiatives, self-developed equipment and automated production lines. Per capita output has been continuously improved by self-developed production techniques, enhanced production yield and our global presence. Our target is to achieve the per capita output level of developed countries in 3–5 years.

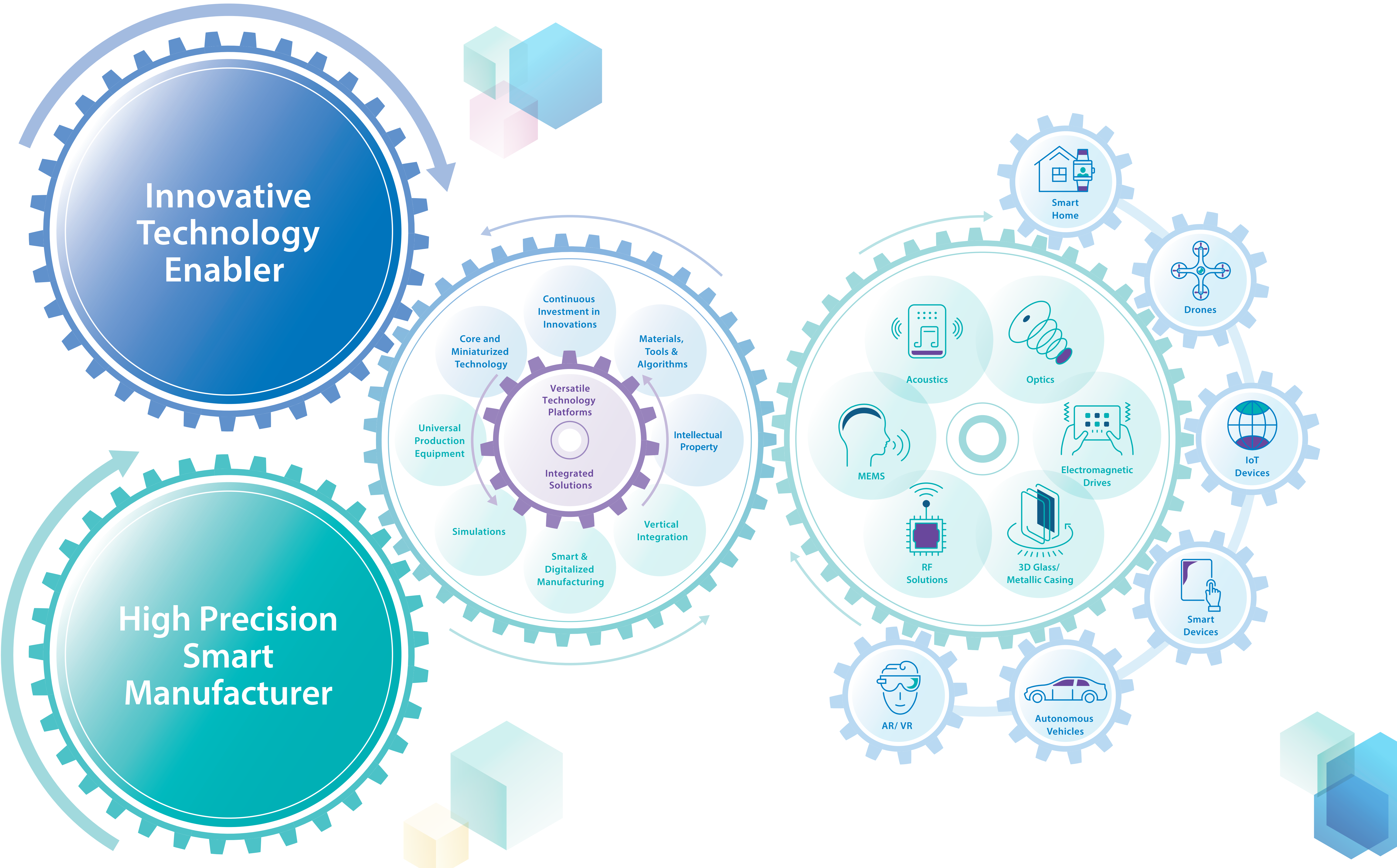
Establish a versatile technology platform to achieve intensive use and greater integration of R&D resources:

Our versatile technology platforms enable the Group to invest in specific R&D of these segments: miniaturized acoustic components, haptics, actuators, stepping motors, WLG lenses, 3D cover glasses and MEMS, to maintain the technology leader status and the innovative capabilities.

Establish a versatile equipment platform to enhance the level of standardization and digitalization:

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




Innovative Technology Enabler
High Precision Smart Manufacturer
Continuous Investment in Innovations
Core and Miniaturized Technology
Materials, Tools & Algorithms
Versatile Technology Platforms
Integrated Solutions
Universal Production Equipment
Intellectual Property
Simulations
Vertical Integration
Smart & Digitalized Manufacturing
Acoustics
Optics
MEMS
Electromagnetic Drives
RF Solutions
3D Glass/ Metallic Casing
Smart Home
Drones
IoT Devices
Smart Devices
Autonomous Vehicles
AR/ VR

Financial Highlights

Revenue
(RMB million)
18,131
−14% YoY

EBITDA
(RMB million)
6,292
−16% YoY

Earnings Per Share
(RMB)
3.11
−29% YoY

Free Cash Flow
(RMB million)
2,861
+28x YoY

CAPEX/EBITDA
62%
−8.7 ppts YoY

Per Capita Output
(RMB)
503,713
+24% YoY

Net Assets
(RMB million)
18,934
+7.9% YoY

Net Gearing Ratio
6.2%
−1.1 ppts YoY

ROE
20.8%
−12.8 ppts YoY

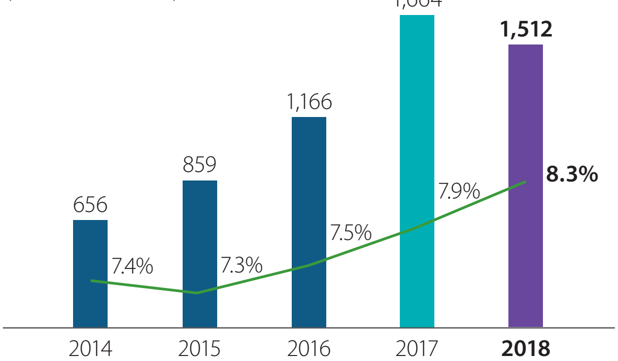
Summary of Past 5-Year Operating Financial Data

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**	2018 vs 2017 YoY Increase/ (Decrease)
Revenue	8,879,300	11,738,866	15,506,828	21,118,566	**18,131,153**	(14.1%)
Depreciation and Amortisation	527,348	715,745	968,905	1,316,046	**1,763,627**	34.0%
Finance costs	13,692	21,950	66,812	164,711	**217,888**	32.3%
Net profit	2,317,695	3,106,904	4,025,665	5,324,579	**3,795,885**	(28.7%)
EBITDA	3,121,607	4,172,968	5,668,707	7,477,054	**6,291,817**	(15.9%)
CAPEX	(2,224,650)	(2,420,910)	(4,137,632)	(5,286,186)	**(3,903,282)**	(26.2%)
Taxation paid	(248,351)	(276,608)	(453,024)	(696,234)	**(676,286)**	(2.9%)
Changes in working capital	(940,473)	(291,148)	(286,125)	(1,601,984)	**1,149,187**	171.7%
Free cash flow	(291,867)	1,184,302	791,926	(107,350)	**2,861,436**	2,765.5%
Gross margin	41.4%	41.5%	41.5%	41.3%	**37.2%**	(4.1 ppts)
R&D expenses to Revenue	7.4%	7.3%	7.5%	7.9%	**8.3%**	0.4 ppt
ROA	19.3%	20.9%	19.8%	19.4%	**12.5%**	(6.9 ppts)
ROE	27.2%	30.4%	31.6%	33.6%	**20.8%**	(12.8 ppts)
Per capita output (Revenue/Employees)	276	329	334	405	**504**	24.4%
Net gearing ratio	Net Cash	Net Cash	0.9%	7.3%	**6.2%**	(1.1 ppts)
Current ratio	1.69	1.89	1.41	1.32	**1.44**	12.0 ppts
CAPEX/EBITDA	71.3%	58.0%	73.0%	70.7%	**62.0%**	(8.7 ppts)

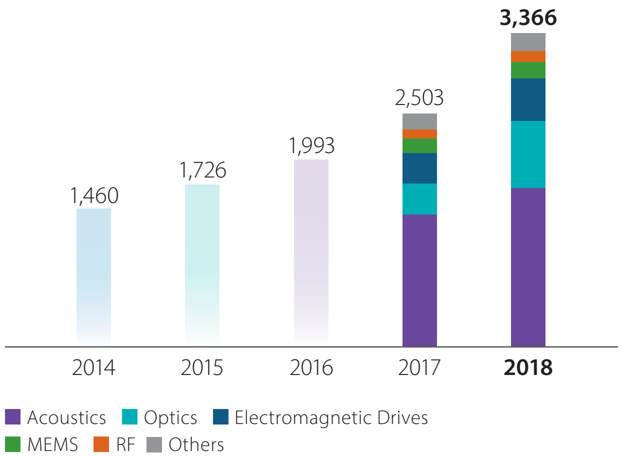
R&D

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

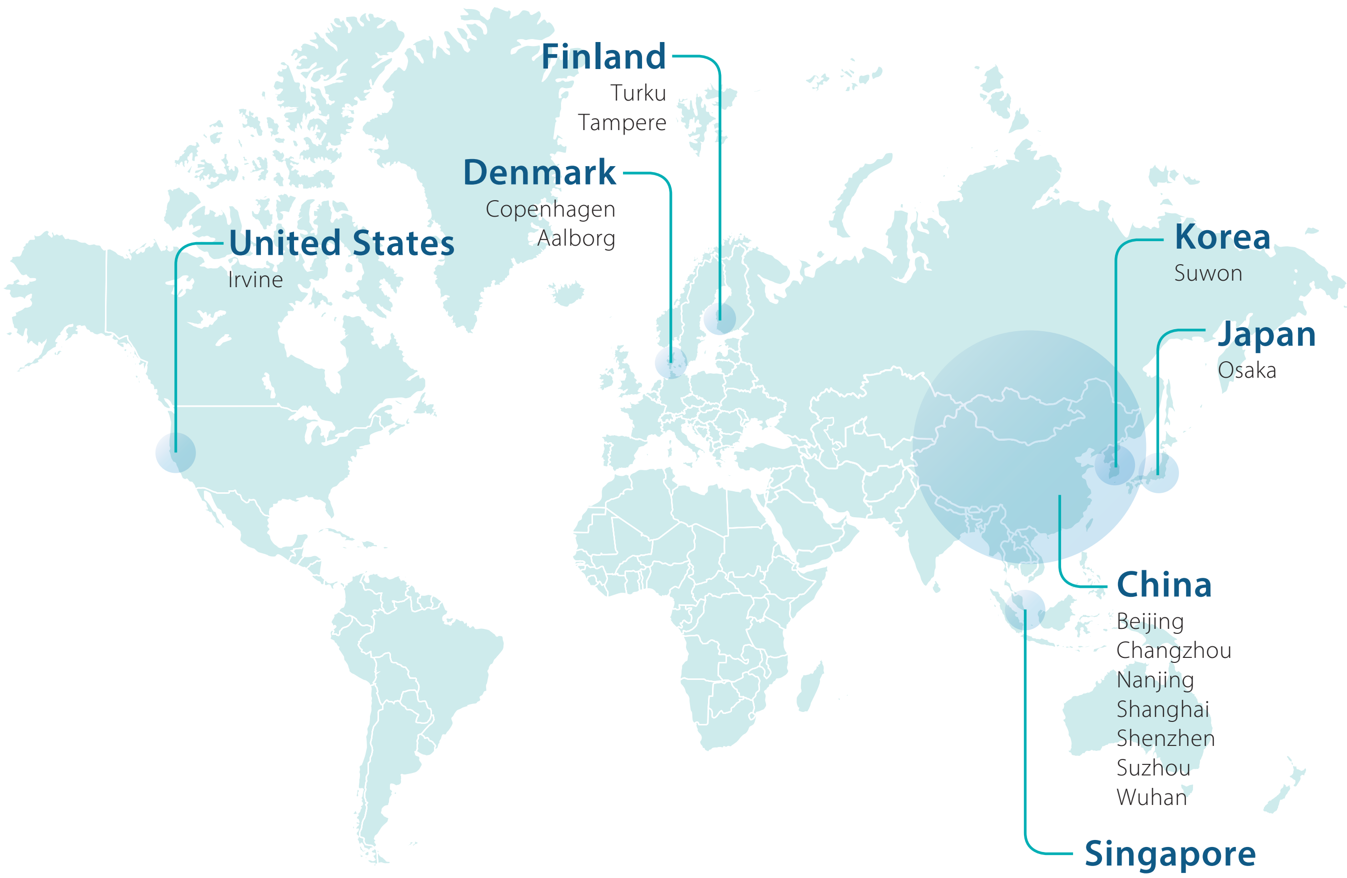
(RMB million or %)



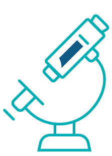
Patents



R&D Centers



R&D Centers
15



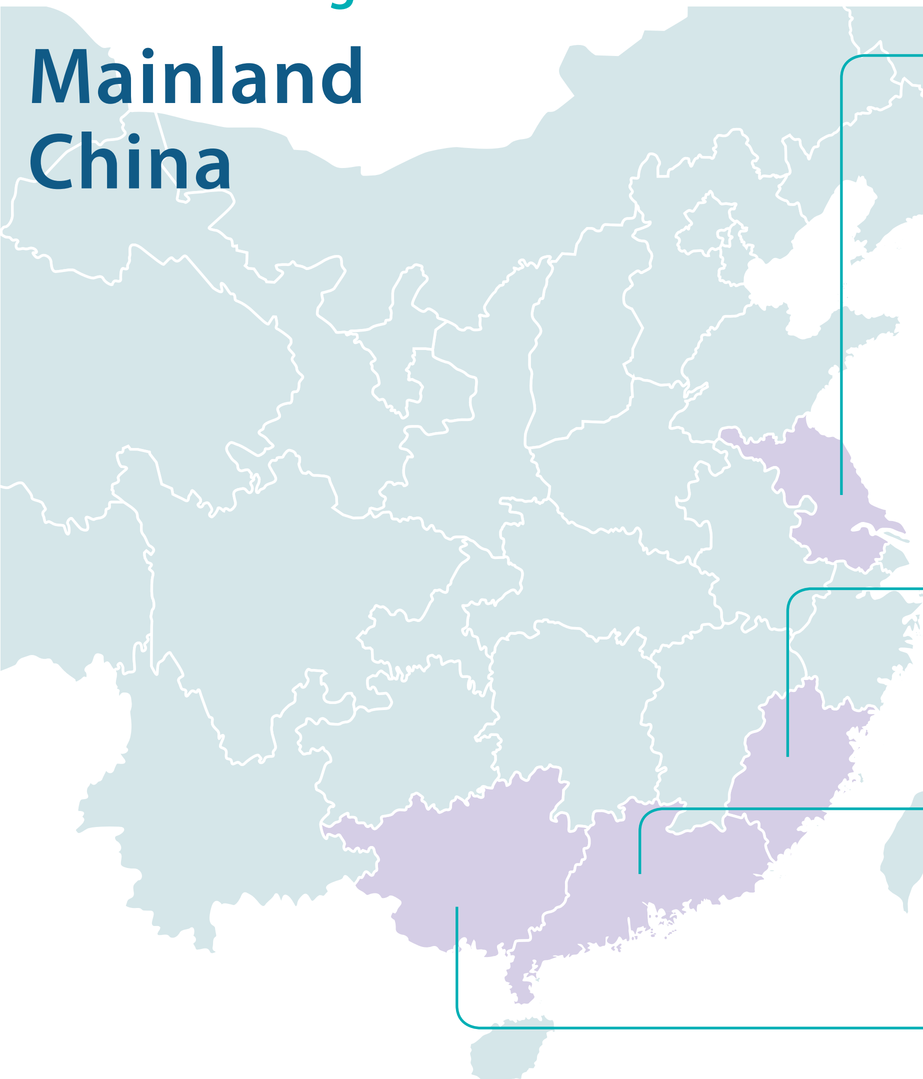
R&D Engineers and Technicians
3,982

Patents
3,366

Patent Applications
2,968

Manufacturing

Mainland China



Jiangsu

Changzhou

Acoustics
3D Glass
Electromagnetic Drives
Optics

Shuyang

RF Mechanics
LDS Antenna

Suzhou

Optics

Fujian

Xiamen

MEMS components

Guangdong

Longgang, Shenzhen

MEMS Microphone
MEMS Tuner

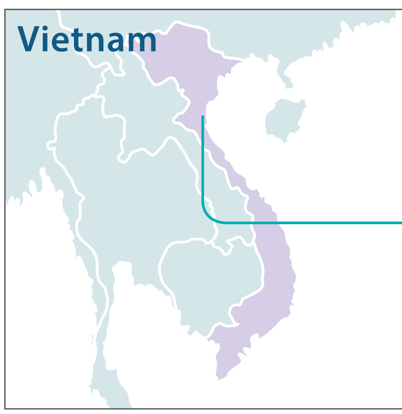
Guangxi

Nanning

Acoustics
RF Mechanics

General Trias, Cavite

Electromagnetic Drives



Bac Ninh

Acoustics

Vinh Phuc

Ba Thien IP Industrial Park:
1st phase to be completed
in 2019

Milestones

1993
Shenzhen Yuanyu, manufactured miniature acoustic components

2005
IPO on Hong Kong Stock Exchange

2007
Mass production of MEMS microphones

2008
Certified supplier for top 5 global mobile phone makers

Mass production of haptics and waterproof speakers

2009
Acquired ISQR, a Japanese lens designer

Set up Singapore RF design laboratory

2010
Invested in Kaleido, Denmark for WLG technology

Started fully automated production of speakers and receivers

2011
Changed Company's name to AAC Technologies

Invested in MEMS Tech, Singapore for MEMS Die design

2012
Started to ship integrated LDS antennas on speaker boxes

2013
Mass production of RF mechanical solutions

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

2015
Acquired Wispry, US for RF MEMS technology

2016
Became the Hang Seng Index constituent stock

Launch of stereo sound solutions

2017
Launch of SLS platform

Mass production of plastic lenses

2018
Shipment of SLS acoustic products & WLG Hybrid lenses

Chairman and CEO Statement

Our objective is to "lead innovation and enhance user experience"…… will accelerate new product development to replace our old products and strive for sustainable development……We firmly believe in 2019 we are well-prepared to launch AAC Technologies into a promising new era.

Dear Shareholders,

2018 was a year of significant transformation for AAC Technologies in its 25-year development journey. During the year, we achieved much progress in innovation and established new versatile platforms. We also successfully transformed and upgraded our served market segments, product mix, and competitive strategy.

BUSINESS REVIEW

As a leading smart device solutions provider, our objective is to "lead innovation and enhance user experience". We introduced a number of innovative products and advanced industry standard technologies in acoustics, optics, electromagnetic drives, radio frequency antennas, such as the super linear structure platform, wafer-level glass lenses, pop-up stepper motors, and 5G solutions. All of these have greatly strengthened our global leadership in the industry and will drive our long-term growth. However, due to the decline in global smartphone shipments and deceleration in technological innovation, in 2018, the Group's revenue and net profit decreased by 14.1% and 28.7%, respectively, and gross profit margin was 37.2%, down by 4.1 percentage points. As previously announced, we expect such impact on our business will continue into the first quarter of 2019.

We continued to improve our customer portfolio, to enrich product lines and to innovate user experience amidst the market challenges in 2018. These transformational efforts are beginning to pay off: SLS products became popular among mainstream customers; mass production of optical lenses rapidly reached our capacity target; and, gross profit performance in Micro Electro-Mechanical Systems segment was improved. In addition to strict cost controls, the Company continued to improve the utilisation of production equipment and per capita output.

STRATEGIES AND OUTLOOK

As better global economic prospects are on the horizon, there are signs that the smartphone market is regaining momentum. The expected new growth cycle in the smartphone industry will give us opportunities to demonstrate our leading technology edge. Some smartphone brands have continued to announce innovative designs, such as the recently launched foldable and dual-screen phones, which have won wide consumer acclaim. These brands, as expected, have adopted the Company's advanced technologies, products and solutions. With the advent of high-speed data transmission applications in the 5G era, new acoustics, optics and other artificial intelligence multimedia functions will drive further upgrade of the specs in the new smartphones.

We will accelerate new product development to replace our old products, and strive for sustainable development in delivering innovation breakthroughs and capturing new market opportunities. We will continue to adopt a "two-pronged" approach, namely, R&D and manufacturing. Improved versatile technology and manufacturing platforms will reinforce our unique competitive advantages. Precise market positioning will enable us to capture market value and gain market share. We will continue to proactively collaborate with strategic customers to deliver innovative user experience through customer-oriented product offerings. Moreover, we will strive to leverage our capabilities and synergies to extend to new markets, such as VR/AR equipment and smart cars.

Now is the time for the Company to deliver. With our past continued R&D and capital investment in new technology platforms, we firmly believe in 2019 we are well-prepared to launch our Company into a promising new era.

FINANCIAL MANAGEMENT

The Group practises prudent financial management to ensure it is able to maintain strong operating cash inflows and a healthy balance sheet. In 2018, the Group's operating cash inflow increased by RMB1.5 billion to RMB6.8 billion compared to RMB5.3 billion for the same period in 2017. After deducting capital expenditure of RMB3.9 billion and dividend payments of approximately RMB2.2 billion, the Group had more than RMB4.0 billion of cash as at 31 December 2018. After deducting cash and cash equivalents, our overall net gearing ratio continues to improve, reducing from 7.3% to 6.2%, and our credit rating of Baa1 was affirmed on 26 February 2019.

Other than the dividend payments to shareholders of the Company, the Group uses its cash mainly to invest in the segments with good return, as R&D investments and CAPEX for new production facilities. For 2019, the Group plans to make allocations according to the said requirements and the budgeted CAPEX at the moment stands at approximately RMB2.0 billion, about 50% of the amount last year.

FINAL DIVIDEND

Based on strong cash flow projections and the cash position of the Group, the Board of Directors recommended payment of annual cash dividend of HK$1.43 this year. With interim dividend of HK$0.40 per share for the year already paid, the proposed final dividend for 2018 is HK$1.03 per share.

Subject to Shareholders' approval at the forthcoming annual general meeting to be held on 24 May 2019, the said final dividend will be payable to Shareholders of the Company, whose names appear on the register of members of the Company on 12 June 2019. Payment will be made on or about 26 June 2019.

SUSTAINABILITY

The Company aspires to be a trailblazer on the path of sustainability, focusing on growing responsibly, expanding its talent pool, achieving operational excellence and giving back to community. We will publish our sixth sustainability report in April 2019. To pass the intense scrutiny on Environmental, Social and Governance disclosure by stakeholders, we are determined to improve transparency over time, taking heed of Appendix 27 of the Listing Rules, the recommendations of the Task-force on Climate Financial Disclosure, as well as other internationally recognised sustainability frameworks. To keep improving the integrity of our ESG data, we have been expanding the reporting scope, optimising our sustainability data collection management system and engaging third-party verification.

Our efforts to raise the bar on reporting of ESG performance continue to win industry recognition and stakeholder acknowledgement, for example, we have been a constituent of the Hang Seng Corporate Sustainability Index for five years since 2014. As we move forward, we will continue to offer new solutions that have positive impacts on our stakeholders. This commitment is anchored on the Group's strategy of persisting in sustainable innovation led development. As at 31 December 2018, thanks to the R&D teams' efforts in the 15 R&D centers we operate worldwide, we secured 925 new patents, bringing the total to 3,366 patents.

APPRECIATION

On behalf of the Board, we would like to express our heartfelt appreciation to our staff and management team for their hard work, and to our other stakeholders for their unwavering support. We look forward to their continuous support. Last but not least, we would like to announce Mr. Tan Bian Ee's upcoming retirement and that he will not be seeking re-election in the coming AGM. We extend our sincere thanks to Mr. Tan for his invaluable contributions and guidance to the Company in the past nine years and we wish him all the best.

Koh Boon Hwee
Chairman

Pan Benjamin Zhengmin
Chief Executive Office

22 March 2019

Market Review

According to the International Data Corporation ("IDC") report, the overall shipments of smartphones in 2018 decreased by 4.1% year-on-year to 1.4 billion units. The market shipment was impacted because: the replacement cycle for smartphones has been prolonged due to improved software and hardware; increasing macro-economic uncertainty due to Sino-US trade tensions, and consumers perceived over-pricing of high-end brand smartphones. Smartphone markets in developed countries and China became near saturated highlighting inventory management competition. The consumers preferred to wait for clearer trends of the "next revolutionary designs", be it 5G or foldable phones to be introduced in 2019. In view of this, smartphone brands are keeping abreast of product innovation for differentiation.

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

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

Acoustics (Dynamic components)

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

2018

In 2018, the Group has achieved major breakthroughs in precision acoustic technology and launched the innovative acoustic platform, Super Linear Structure. SLS speakers revolutionised traditional diaphragm design to create sustainable enhancement in diaphragm vibration resulting in marked improvement in the sound quality and listening experience. Advanced algorithm has been integrated to resolve the balance between better sound quality, louder volume and small form factor of miniaturized speaker's design.

By end of 2018, entry-level SLS has successfully penetrated most mainstream Android flagship models with significant enhancement of the unit price of speakers. However, as overall shipments of SLS were still at an initial rollout phase with gradual increasing shipments, amidst the pricing pressure in the legacy products, the revenue of acoustic segment in 2018 recorded a year-on-year decrease of 9.4% to RMB8.67 billion, contributing 47.8% of total revenue. The gross profit margin was 37.2%, a year-on-year decrease of 3.6 percentage points.

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

2019 Strategy

In 2019, the Group will consolidate its market position of the entry-level SLS. The upgrade roadmap of SLS platform will be accelerated and we expect market penetration will be further increased. The Group expects total annual shipments to increase substantially, driven by continual penetration of SLS into all mainstream flagship models and mid-range models during the year. The Group believes the continuous upgrade capability of the SLS platform will further enlarge the Group's market share in acoustics, drive revenue growth and improve gross margin. Furthermore, the Company will explore new markets such as VR/AR devices and smart cars, in which the SLS platform has strong potential.

SLS Shipment

75 Million

Optics

2018

In 2018, the optic business segment made a satisfactory revenue of RMB550 million, accounting for 3% of the Group's total revenue, and a year-on-year increase of 240%. As planned, the Company has successfully penetrated major smartphone customers. In terms of plastic lenses, the monthly production capacity of plastic lens reached 40 million units and its monthly shipment exceeded 20 million units by the end of 2018. There is room for improvement in operational efficiency and gross profit margin, given that during this year only smaller scale projects were undertaken. We believe greater economies of scale can be achieved. Our hybrid lenses designed for structured light function have been shipped to our customers. WLG proves to have a strong potential and demonstrates our optical design capability. Our main-camera solution and its continual upgrade roadmap has also been recognized by customers. Mass production plan for this solution is already on its way. During the year, the Group continued to increase R&D resources and expanded the optical R&D team in Finland, focusing on product development and testing relating to image processing, sensor and lens design. We are committed to enhance our overall optical design and production capabilities to create brand new high-end imaging solutions.

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

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

2019 Strategy

In 2019, with triple cameras gaining popularity, demand for upgraded optical specifications is increasing. 32MP front- and 48MP rear-lenses are widely adopted in several new flagship and best-selling models. We expect that the unit price of lenses will be driven up as demand will remain strong and likely to exceed the overall market supply. The Group will increase its monthly production capacity for plastic lenses to 50 million or above to capture such market opportunities in 2019. Furthermore, to create a revolutionary user experience, we will continue to promote WLG hybrid lenses for high-end camera applications of major brands, such as ultra-high pixels, optical-zoom and periscope multi-zoom optimization.

Monthly Capacity of Plastic Lens

40 Million

Electromagnetic Drives/ Precision Mechanical

2018

In 2018, there was a slowdown in haptic innovation. Drop in average unit price and shipments of haptic components caused by the intensified competition led to a decline in the revenue. As for the precision mechanical segment, the demand was weaker than expected due to sluggish market of high-end models. With lower shipments, production utilisation and gross margin were affected. In 2018, the combined business segment of electromagnetic drives and precision mechanical decreased by 23.8% year-on-year to RMB7.9 billion, accounting for 43.5% of the Group's total revenue, and gross profit margin was 41.1%, down 2.8 percentage points year-on-year.

Thanks to the core electromagnetic and high precision manufacturing capabilities, stepper motors and decelerators have been developed, AAC is the only supplier of highly vertically integrated stepper motor modules in the market.

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

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

The audio display actuator vibrates the display to produce sounds, replacing the traditional perforated receiver, providing a waterproof and full-screen design.

2019 Strategy

In 2019, integrated under-screen fingerprints technology with large-curved 3D glass and 3D glass back-cover design is setting a trend, calling for continual upgrade specs performance in haptics components. Furthermore, the introduction of customized smartphones for video games has opened up opportunities for high-performance or multiple haptics to deliver a richer tactile user-experience. These developments will translate into both volume demand and higher price for haptic components. Separately, the Group has developed stepper motor module solutions for pop-up cameras to achieve full-screen smartphone design. We believe that the likely extension of stepper motor designs into high-end foldable and telescopic smartphones would create high potential for further business development. Our core electromagnetic knowledge and high precision processing capabilities have enabled the Group to be a leading supplier of highly-vertical integrated solutions. We believe that the stepper motor design will become a new source of revenue. As for precision mechanical, we will optimize existing production capacity of metal frame/casing within 2019. In the forthcoming 5G era, glass casings will become popular. Leveraging on our proprietary moulding and in-house thermal bending technologies, the Group has already developed integrated innovative solutions incorporating ultra-narrow metal frames, large-curved 3D glass and the latest haptics to provide the design differentiation and enhanced user experience for our customers' high-end models.

MEMS

2018

In 2018, the Group succeeded in optimising the cost structure of MEMS microphones by improving the vertical integration capabilities of the MEMS operation. Although slowdown in specs upgrade of MEMS components squeezed unit price, leading to a decrease in revenue by 3.9% year-on-year to RMB814 million, or 4.5% of the Group's total revenue, the Group was able to raise the use of in-house developed MEMS designs and digital ASIC chips to 15% and 45% respectively, thus helping to improve the gross profit margin of the segment by 4.2 percentage points year-on-year to 26.6%.

2019 Strategy

In 2019, the Group will continue to develop advanced solutions of MEMS design and digital ASIC chips to meet requirements of different customer tiers and to gain market share. We believe the relevant applications under the advent of 5G era are going to fuel demand for MEMS components. The Group will leverage this trend to drive growth of revenue and profit margin of this segment.

Growth in Gross Margin

+4.2ppts

Financial Review

Revenue

2018 Group revenue declined year-on-year by RMB3 billion, or 14.1%, to RMB18 billion. Owing to factors discussed in the statement by Chairman and CEO above, revenue from the Acoustics and Electromagnetic Drives & Precision Mechanicals decreased by RMB905 million and RMB2,459 million respectively, whilst Optics revenue saw an encouraging increase of RMB389 million, compared with 2017.

Gross Profit and Gross Profit Margin

2018 gross profit was RMB6.7 billion, representing a decrease of RMB2.0 billion, or 22.7%, from the gross profit of RMB8.7 billion in 2017. The drop in gross profit was primarily due to the reduction in revenue and gross profit margin. Gross profit margin decreased to 37.2% in 2018 as compared with 41.3% in 2017. Although the overall yield and efficiency were improved, the gross profit margin was decreased owing to ASP pressures on legacy products and unfavorable product mix due to slow- down in innovation and specs upgrade.

Administrative Expenses

Administrative expenses in 2018 were RMB650 million, 6.5% higher, compared with RMB610 million in 2017. The rise of administrative expenses in 2018 was primarily attributable to two one-off items, being (i) an impairment loss on trade receivables from one PRC customer; and (ii) a waiver of a loan receivable from a prior shareholder of one of our overseas subsidiaries.

Distribution and Selling Expenses

Distribution and selling expenses of RMB317 million in 2018, along with the decline in revenue, dropped by RMB48 million, or 13.3%, compared with RMB365 million in 2017. Amongst the drop, there was a corresponding decline in human resource payroll expenses.

Research and Development Expenses

Research and development ("R&D") expenses in 2018 were RMB1,512 million, RMB152 million or 9.1% lower than RMB1,664 million in 2017. The decrease in R&D expenses was primarily attributable to improved use of engineering resources in R&D stage of current product platforms and new solutions.

Finance Costs

Finance costs in 2018 amounted to RMB218 million, representing an increase of RMB53 million, compared with RMB165 million in 2017. Such increase in finance costs was due to the rise of market interest rates in 2018 and higher borrowing interest rate impact in our strategy to have long-term bank loans in our loan portfolio for better liability and risk management. The percentage of long-term bank loans as at 31 December 2018 is 41% of total bank loans (31 December 2017: 31%).

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses in 2018 amounted to RMB514 million, representing a decrease of RMB157 million or 23.3% from RMB671 million in 2017. While the effective tax rate have slightly increased compared with that of 2017, the increase was mainly due to expiration of tax concessions of some of our overseas subsidiaries.

Net Profit and Net Profit Margin

Reported net profit for the year 2018 was RMB3.8 billion, a decline of 28.7%, compared with RMB5.3 billion in 2017. The decline was due to drop in revenue and gross profit margin. Higher administrative costs incurred during the year also contributed to the adverse 4.3 percentage points decrease in net profit margin to 20.9%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has always emphasized financial discipline and continues 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, are as below:

	For the year ended 31 December	
	2018	2017
	RMB million	RMB million
Net cash from operating activities	**6,789.3**	5,287.0
Net cash used in investing activities	**(3,599.1)**	(5,008.6)
Net cash used in financing activities	**(3,246.8)**	(14.1)

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB6,789.3 million for 2018 and RMB5,287.0 million for 2017. The increase in the net cash generated from operating activities in 2018 was mainly attributable to the improvement in working capital, particularly the reduction in trade receivables and inventories.

i. Trade Receivables and Payables

As at 31 December 2018, turnover days of trade receivables increased by 3 days to 91 days as compared to 31 December 2017. Trade receivables decreased by RMB2.3 billion to RMB3.4 billion. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,269.3 million (31 December 2017: RMB5,300.3 million), RMB94.9 million (31 December 2017: RMB320.5 million) and RMB4.8 million (31 December 2017: RMB91.1 million) respectively. The Company has received subsequent settlement totaling RMB2,766.7 million up to 28 February 2019, representing 82% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days decreased by 1 day to 122 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 RMB2,593.2 million (31 December 2017: RMB3,878.6 million), RMB618.1 million (31 December 2017: RMB497.3 million) and RMB8.0 million (31 December 2017: RMB22.5 million) respectively.

ii. Inventory Turnover

The inventory turnover days increased to 108 days as at 31 December 2018 from 89 days for 31 December 2017. Although inventory level as at 31 December 2017 and 2018 were capped in similar level, increase in inventory turnover days in 2018 was due to a declined annual sales revenue and weaker market demand in year-end.

Investing Activities

Net cash invested in year 2018 and 2017, amounted to RMB3,599.1 million and RMB5,008.6 million, respectively. CAPEX will include acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for modifications and upgrades as well as capacity expansion. For year 2018 and 2017, total CAPEX incurred were RMB3,903.3 million and RMB5,286.2 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash used in financing activities of approximately RMB3,246.8 million for year 2018. Major outflows were dividend paid to Shareholders of RMB2,181.6 million (2017: RMB1,662.3 million). For year 2018, the Group recorded net outflow from bank borrowings, new bank borrowings raised of RMB5,071.9 million (2017: RMB8,214.2 million) and repayment of bank loans of RMB5,627.1 million (2017: RMB5,852.0 million).

Cash and Cash Equivalents

As at 31 December 2018, the unencumbered cash and cash equivalents of the Group amounted to RMB4,058.9 million (31 December 2017: RMB4,034.1 million), of which 61.9% (31 December 2017: 57.4%) was denominated in US dollar, 30.8% (31 December 2017: 34.8%) in RMB, 4.4% (31 December 2017: 5.5%) in Hong Kong dollar, 1.2% (31 December 2017: 0.9%) in Japanese Yen, 0.5% (31 December 2017: 0.4%) in Euros, 0.4% (31 December 2017: 0.3%) in Singapore dollar, and 0.8% (31 December 2017: 0.7%) in other currencies.

Gearing Ratio and Indebtedness

As at 31 December 2018, the Group's gearing ratio, defined as total loans and borrowings divided by total assets, was 19.8% (31 December 2017: 20.5%). Netting off cash and cash equivalents, net gearing ratio was 6.2% (31 December 2017: 7.3%).

The short-term bank loans and long-term bank loans of the Group as at 31 December 2018 amounted to RMB3,492.5 million (31 December 2017: RMB4,349.4 million) and RMB2,427.9 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 CAPEX of the Group.

Charges on Group Assets

Apart from bank deposits amounting to RMB2.1 million that were pledged to banks mainly in relation to equipment purchases as at 31 December 2018 (31 December 2017: RMB9.0 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2018, the Group had not entered into any material off-balance sheet transactions.

Key Risk Factors

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In 2018, we employed an independent professional firm under a co-sourcing model to help the Group systematically review and upgrade our risk and control measures in chosen business processes, benchmarking against international best practices. Such systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss. Certain key risk factors affecting the Group are outlined below. The list is non-exhaustive and there may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may be immaterial now but could become material in the future. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones Segment

A substantial part of the Group's revenue is derived in the smartphone segment of the consumer electronics market. The overall global market for smartphones contracted in 2018. A continual contraction in the global smartphones market may adversely affect our operating 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. Our substantial on-going investments in R&D, leading to an expanded suite of 3,366 patents in total across acoustic and new technology platforms, should also help to protect our business against competition within the smartphone market segment.

Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 84.3% of the Group's total revenue, are all related to the dynamic consumer electronics industry, characterized by innovation-driven and user experience-oriented business growth. Loss of or changes in market position of any of these customers may materially and adversely affect the Group's business, financial condition and results of operations. Nevertheless, the Group has focused on technology innovation to continuously enhance user experience meeting customers' spec upgrade needs. We have also implemented standardized procedures for handling all forms of customer information to ensure it is not improperly or inadvertently disclosed to third parties. The Group has strong established relationships with these major customers; all of them have been our customers for over 7 years. The credit terms granted to them are in the range of 60- to 90-day periods and are generally in line with those granted to other customers.

Operational and Obsolescence Risks

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

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

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

Liquidity and Interest Rate Risks

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

The Group is exposed to interest rate risks on its bank loans for working capital and CAPEX that are associated with the expansion of the Group. Upward fluctuations in interest rates increase the costs of both existing and new loans. During the year ended 31 December 2018, there was heightened expectation of USD interest rate hikes. The Federal Reserve, in total, raised interest rates four 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 4.75% per annum, while the effective interest on variable-rate bank loans was from 1.27% to 3.74% 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 secured long-term five-year bank loans and entered into interest rate swap contracts in order to improve asset-liability management catering for fund stability as well as interest rate risk.

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

Foreign Exchange Risks

Given our international operations and presence, the Group faces foreign exchange 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 financial reporting results.

The cash inflow to the Group in denominations of the two currencies, namely RMB and USD, are mostly, over time, in balanced proportions. In addition, various bank facilities have been arranged in these two currencies, to meet our daily operating expenses and capital investment requirements. 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.

Trade Frictions between China and the US

China and the US imposed additional tariffs on goods traded between them in 2018. 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. 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 annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board regarding the industry and markets in which it operates. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this document; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

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

Aged 50, Executive Director ("ED") and Chief Executive Officer ("CEO")

Appointed to the Board: 15 December 2003

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

Mr. Pan graduated from 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is the spouse of Ms. Wu Ingrid Chun Yuan ("Ms. Wu"), the non-executive Director and a substantial shareholder of the Company.

Save as disclosed above, Mr. Pan does not have any relationships with other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Pan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years but he has directorship in a number of subsidiaries of the Group.

The term of appointment of Mr. Pan and the interests of Mr. Pan in the shares (within the meaning of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)) (the "SFO") are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" sections of the Directors' Report on pages 40 to 42 of this annual report. Mr. Pan is subject to retirement by rotation and re-election in accordance with the article of association of the Company (the "Articles").

Mr. Mok Joe Kuen Richard ("Mr. Mok")
Aged 55, Executive Director
Appointed to the Board: April 2005 as Independent non-executive Director ("INED")
Redesignated: 5 October 2009 as ED

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

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

Mr. Mok does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Mok did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years.

The term of appointment of Mr. Mok and the interests of Mr. Mok in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" sections of the Directors' Report on pages 40 to 42 of this annual report. Mr. Mok is subject to retirement by rotation and re-election in accordance with the Article.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh")

Aged 68, INED and Chairman of the Board

Appointed to the Board: 9 November 2004

Mr. Koh brings with him extensive management experience and leadership, and has over 30 years of experience in the IT-related and electronics industries.

Mr. Koh is currently the chairman (non-executive) of Sunningdale Tech Ltd, Yeo Hiap Seng Limited and Far East Orchard Ltd (all listed in Singapore), Agilent Technologies, Inc. (listed in the US), Rippledot Capital Advisers Pte Ltd, a private company. He is also the chairman (executive) of Credence Partners Pte Ltd, which manages Credence Capital, a private equity fund focused on SMEs in South East Asia. In the non-profit sector, he is chairman of the Nanyang Technological University Board of Trustees in Singapore and a director of the Hewlett Foundation in the US.

Previously, Mr. Koh was chairman of DBS Group Holdings Ltd, Singapore Airlines Ltd, SIA Engineering Company Ltd, Singapore Telecom Group and its predecessor organizations, Omni Industries Ltd. (all listed in Singapore); executive chairman of Wuthelam Holdings Pte Ltd, and managing director of Hewlett Packard Singapore. He was also a director of Temasek Holdings Pte Ltd, and a member of the executive committee of the board.

Mr. Koh holds a Master's Degree in Business Administration (Distinction) from Harvard Business School. He graduated with a Bachelor's Degree (First Class Honours) in Mechanical Engineering from the Imperial College, University of London.

Mr. Koh was awarded Singapore's Public Service Star in 1991, the Meritorious Service Medal in 1995, and the Distinguished Service Order in 2008 by the President of Singapore.

Mr. Koh does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Koh did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Mr. Koh and the interests of Mr. Koh in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" sections of the Directors' Report on pages 40 to 42 of this annual report. Mr. Koh is subject to retirement by rotation and re-election in accordance with the Article.

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

Aged 67, INED

Appointed to the Board: 1 February 2018

Chairman of Audit and Risk Committee and Member of Remuneration Committee

Mr. Au has more than 40 years of experience in the accountancy profession. Mr. Au is currently the Special Advisor of BDO Limited, a private company. He is an independent non-executive director and the chairman of the Audit Committee of Café de Coral Holdings Limited (listed in Hong Kong), and an independent non-executive director of ZhongAn Virtual Finance Limited. Mr. Au is the chairman of the Hong Kong Trade Development Council's Professional Services Advisory Committee. He is a non-executive director of the Securities and Futures Commission (SFC), the chairman of the SFC's Audit Committee and deputy chairman of the Budget Committee, sits on the SFC (HKEC Listing) Appeals Committee, the Investment committee and the Remuneration Committee.

Previously, Mr. Au was the founder and chairman of BDO Limited. He was an independent non-executive director of Hong Kong International Theme Parks Limited. He was president of the Hong Kong Institute of Certified Public Accountants. He was chairman of the Independent Commission Against Corruption's Corruption Prevention Advisory Committee and served as a member of its Advisory Committee on Corruption. He was the vice chairman of the Hong Kong Coalition of Professional Services Limited. He was a member of the Air Transport Licensing Authority, the Federation of Hong Kong Industries General Committee, the Hong Kong Housing Authority and the Hong Kong Productivity Council where he was also chairman of Audit Committee.

Mr. Au is a Fellow of HKICPA and a member of the Canadian Institute of Chartered Accountants.

Mr. Au does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Au did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, and he does not hold any other position in the Group.

The term of appointment of Mr. Au is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 40 to 41 of this annual report. Mr. Au is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Tan Bian Ee ("Mr. Tan")

Aged 72, INED

Appointed to the Board: 11 September 2009

Chairman of Nomination Committee and Member of Remuneration Committee

Mr. Tan is currently the CEO and executive director of MFS Technology (S) Pte. Ltd., a company listed in Singapore.

Mr. Tan stepped down from Singapore Airlines Engineering Company on July 2010 after 6 years of service. He was formerly the chief operating officer of Avago Technologies and Worldwide Sales and Global Operations, managing director of Hewlett-Packard Malaysia, president of Agilent Technologies Malaysia and Singapore. Mr. Tan has been council member in the Industrial Coordination Council under the Ministry of International Trade & Industry of Malaysia since 2000. He was the former director of Singapore Workforce Development Agency under the Singapore Ministry of Manpower, the former Northern Region chairman for Young Enterprise, a community educational programme under the auspices of the American Malaysian Chamber of Commerce and a founder member of Penang Skills Development Corporation.

Mr. Tan holds a Master of Business Administration with Distinctions from the Golden Gate University as well as a Diploma in Medical Laboratory Technology and Management Studies. He was awarded the Pingat Kelakuan Tertinggi (Exemplary Leadership Award), Darjah Johan Negeri (DJN — Second Highest State Award) and the Darjah Setia Pangkuan Negeri which carries the title Dato' (DSPN) in 1991, 1995 and 1999 respectively from the State Government of Penang, Malaysia.

Mr. Tan does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Tan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Mr. Tan is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 40 to 41 of this annual report. Mr. Tan is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Poon Chung Yin Joseph ("Mr. Poon")

Aged 64, INED

Appointed to the Board: 5 October 2009

Chairman of Remuneration Committee, Member of Audit and Risk Committee and Nomination Committee

Mr. Poon is currently an independent non-executive director of Hysan Development Company Ltd., a company listed in Hong Kong.

He was formerly the group managing director and deputy chief executive officer of Tai Chong Cheang Group, managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce.

Mr. Poon, is a member of Chartered Accountants Australia and New Zealand, and HKICPA. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors. He graduated with a Bachelor of Commerce degree from the University of Western Australia.

Mr. Poon does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Poon did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Mr. Poon is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 40 to 41 of this annual report. Mr. Poon is subject to retirement by rotation and re-election in accordance with the Articles.

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

Aged 63, INED

Appointed to the Board: 1 February 2018

Member of Audit and Risk Committee and Nomination Committee

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

Previously, Mr. Kwok was an independent non-executive director of Pacific Andes International Holdings Limited and Qianhai Health Holdings Limited (all listed in Hong Kong).

Mr. Kwok is a practicing solicitor in Hong Kong, and is a Partner of Kwok Yih & Chan, Solicitors. He is also qualified to practice as a solicitor in Australia, England and Wales and Singapore. Mr. Kwok is a fellow member of HKICPA, CPA Australia and The Institute of Chartered Accountants in England and Wales. Mr. Kwok holds a Master's Degree in Laws. He graduated with Bachelor's Degrees in Economics and Laws respectively from the University of Sydney, Australia He also obtained the Advanced Management Program Diploma from the Harvard Business School.

Mr. Kwok does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Kwok did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, and he does not hold any other position in the Group.

The term of appointment of Mr. Kwok is set out in the "Directors and Service Contracts" section of the Directors' Report on pages 40 to 41 of this annual report. Mr. Kwok is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Peng Zhiyuan ("Mr. Peng")
Age 46, INED
Appointed to the Board: 1 January 2019

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

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

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

Mr. Peng does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Peng did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, and he does not hold any other position in the Group.

The term of appointment of Mr. Peng is set out in the "Directors and Service Contracts" section of the Director's Report on pages 40 to 41 of this annual report. Mr. Peng is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Zhang Hongjiang ("Mr. Zhang")

Age 58, INED

Appointed to the Board: 1 January 2019

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

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

Mr. Zhang is a Fellow of the Institute of Electric and Electronic Engineers ("IEEE") and Association for Computing Machinery ("ACM"). Mr. Zhang received a Philosophy Doctor in Electrical Engineering from the Technical University of Denmark. He graduated with a Bachelor of Science degree from Zhengzhou University.

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

Mr. Zhang does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Zhang did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, and he does not hold any other position in the Group.

The term of appointment of Mr. Zhang is set out in the "Directors and Service Contracts" section of the Director's Report on pages 40 to 41 of this annual report. Mr. Zhang is subject to retirement by rotation and re-election in accordance with the Articles.

NON-EXECUTIVE DIRECTOR

Ms. Wu Ingrid Chun Yuan
Aged 48, Non-executive Director
Appointed to the Board: 4 December 2003

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

Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. She is the spouse of Mr. Pan, the executive Director, CEO and a substantial shareholder of the Company. She is also a director of Sapphire Hill Holdings Limited and K&G International Limited, both substantial shareholders of the Company.

Save as disclosed above, Ms. Wu does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Ms. Wu did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and she does not hold any other position in the Group.

The term of appointment of Ms. Wu and the interests of Ms. Wu in the shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO) are respectively set out in the "Directors and Service Contracts" and "Directors' and Chief Executive's Interest in Shares, Underlying Shares and Debentures" sections of the Directors' Report on pages 40 to 42 of this annual report. Ms. Wu is subject to retirement by rotation and re-election in accordance with the Article.

SENIOR MANAGEMENT

Mr. Duan Yunjian Jack ("Mr. Duan")

Aged 46, Chief Operating Officer

Date of Appointment: 1 October 2014

Mr. Duan leads global sales and marketing. His team listens to the market to determine what technologies will deliver differentiated user experiences. This drives AAC R&D to develop enabling technologies. AAC sales promotes leading edge technologies to our strategic partners to support their market share growth and increased profitability. Mr. Duan has held senior sales, marketing and global supply management positions at various electronics companies in the PRC and the USA, such as Foxconn and Hewlett-Packard. Mr. Duan obtained Master degrees in Engineering from University of Southern California and University of California, San Diego. He graduated with a Bachelor of Science degree in Engineering Physics from Peking University.

Mr. David Plekenpol ("Mr. Plekenpol")

Aged 59, Chief Strategy Officer

Date of Appointment: 2 February 2010

Mr. Plekenpol leads an advanced technology team to identify technologies to be integrated with AAC technology platform to contribute to the creation of superior and differentiated user experiences. Supporting AAC sales and R&D, this team evaluates emerging markets to source under recognized value to commercial with AAC high precision manufacturing. Mr. Plekenpol has spent twenty years in the telecom industry, with executive positions in both Lucent and Alcatel. He has founded two Silicon Valley venture capital backed startup companies, led sales and marketing for an optical component startup in Scotland and spent two years with a venture capital backed Chinese mobile design startup in Shanghai before joining AAC Technologies. Mr. Plekenpol is a member of the International Advisory Board for the University of Edinburgh Business School. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University.

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in Management Discussion and Analysis on pages 17 to 21 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 35 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in note 42 to the consolidated financial statements. Details of principal risks and uncertainties affecting the Company are provided in Key Risk Factors on pages 25 to 27 of this annual report. An analysis of the Group's performance is provided in the summary of the results and of the assets and liabilities of the Group for the last five financial years as set out on page 170 of this annual report. Analysis using financial key performance indicators (KPIs) are provided in the Financial Highlights on pages 8 to 9 and Financial Review on pages 22 to 24 of this annual report. In addition, discussions on the Group's environmental, social and governance policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report and section of Sustainability on pages 51 to 84. The sustainability report for 2018 will be available on the Company's corporate website on 18 April 2019.

RESULTS AND DIVIDENDS

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

An interim dividend of HK$0.40 per ordinary share was paid during the year. The Directors of the Company have resolved to recommend the payment of a final dividend of HK$1.03 per ordinary share.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the retained earnings, the share premium accounts and the special reserve which amounted to RMB1,716,775,000 (2017: RMB2,212,117,000) including treasury shares with a debit balance of RMB79,202,000 (2017: nil) that repurchased but not cancelled. Under the section 34 of Cayman Islands Companies Law, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and Articles and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:

Pan Benjamin Zhengmin (CEO)
Mok Joe Kuen Richard

Independent Non-executive Directors:

Koh Boon Hwee (Chairman of the Board)
Au Siu Cheung Albert (Appointed on 1 February 2018)
Tan Bian Ee
Poon Chung Yin Joseph
Kwok Lam Kwong Larry (Appointed on 1 February 2018)
Peng Zhiyuan (Appointed on 1 January 2019)
Zhang Hongjiang (Appointed on 1 January 2019)
Chang Carmen I-Hua (Retired at the conclusion of the 2018 AGM on 28 May 2018)

Non-executive Director:

Wu Ingrid Chun Yuan

Appointment and Re-election of the Directors of the Company

In accordance with Article 84 of the Articles, Mr. Pan, Ms. Wu and Mr. Tan will retire by rotation. Except Mr. Tan, who had notified the Company that he will not seek for re-election, Mr. Pan and Ms. Wu, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 83 of the Company's Articles, Mr. Peng and Mr. Zhang are additional Directors of the Company newly appointed by the Board, shall hold office only until the next following annual general meeting of the Company after their appointment, and shall then be eligible for re-election at that meeting, and thereafter subject to retirement by rotation and re-election at least once every three years in accordance with the Articles.

Directors' Service Contract

Each of Mr. Pan, Mr. Mok, Ms. Wu, Mr. Koh and Mr. Poon will enter into a letter of appointment with the Company for a term from the date of 2019 annual general meeting to be held on 24 May 2019 until the conclusion of the annual general meeting of the Company to be held in 2021, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Company's Articles or any other applicable law.

Each of Mr. Au and Mr. Kwok has entered into a letter of appointment with the Company for a term from 1 February 2018 until the conclusion of the annual general meeting of the Company to be held in 2020, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Company's Articles or any other applicable law.

Each of Mr. Peng and Mr. Zhang has entered into a letter of appointment with the Company for a term from 1 January 2019 until the conclusion of the annual general meeting of the Company to be held in 2021, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Company's Articles or any other applicable law.

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

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and considers that the independent non-executive Directors are independent.

Biographical details of the Directors of the Company and senior management of the Group as at the date of the annual report are set out on pages 28 to 38.

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

As at 31 December 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 SFO) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code, were as follows:

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

		Number of ordinary shares						Percentage of the Company's issued
Name of Directors of the Company	Capacity	Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests	Total number of shares	shares as at 31 December 2018[1]
Mr. Pan [2]	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	40.66%
Ms. Wu [3]	Interest of spouse/interest of controlled corporation/founder of a discretionary trust	–	–	262,820,525	120,952,005	111,545,122	495,317,652	40.66%
Mr. Koh	Beneficial owner	795,562	–	–	–	–	795,562	0.06%
Mr. Mok	Beneficial owner	100,000	–	–	–	–	100,000	< 0.01%

Notes:

(1) Percentage was computed based on the issued 1,218,000,000 shares as at 31 December 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 and (b) 127,991,931 shares which are beneficially owned by K&G International Limited. These two companies are wholly-owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and

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

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

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

(ii) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; 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 and they have no discretion over distributions or investments in these trusts until distribution is made to them.

Other than as disclosed above, as at 31 December 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

CONTINUING CONNECTED TRANSACTIONS

During 2018, the Group had entered into the continuing connected transactions with certain connected persons of the Company reported in this section. They constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirement under Chapter 14A of the Listing Rules.

2017 Lease Agreements

The Group entered into certain lease agreements ("2017 Lease Agreements") with respective lessors for the lease of offices and production facilities necessary for the business activities of the Group on 16 December 2016 (as amended by subsequent supplemental agreements). A brief recap and actual amount of applicable taxes required to be paid of the transactions is as follows:

Date of agreement	Lessee	Lessor	Location of Premises	Term	Annual Caps RMB'000	2018 Actual RMB'000
16.12.2016	The Group	深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.) ("Shenzhen Yuanyu")	1A01, 6-10A, 6-8C, Roof A, Nanda Building, Nanshan, Shenzhen, PRC	1.1.2017 - 31.12.2019	2017 - 12,168 2018 - 12,168 2019 - 12,168	12,167
16.12.2016	The Group	江蘇遠宇電子投資集團有限公司 (Jiangsu Yuanyu Electronics Investment Group Co., Ltd.) ("Jiangsu Yuanyu")	Yuanyu Technologies Building, Science & Education Mega Centre, Changzhou, Jiangsu Province, PRC	1.1.2017 - 31.12.2019	2017 - 10,607 2018 - 10,607 2019 - 10,716	10,534
16.12.2016	The Group	常州來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd.) ("Changzhou LFY")	Nanxiashu Town, Wujin District, Changzhou, Jiangsu Province, PRC	1.1.2017 - 31.12.2019	2017 - 2,357 2018 - 2,357 2019 - 2,395	2,159
16.12.2016	The Group	紅光(越南)塑業有限公司 (Hongguang Vietnam Plastic Company Limited) ("HVPC")	Lot E3-3 Que Vo IP, Van Duong Commune, Bac Ninh city, Bac Ninh Province, Vietnam	1.1.2017 - 31.12.2019	2017 - US$232,512 2018 - US$232,512 2019 - US$232,512	US$183,508

2017 Purchase Agreements

The Group entered into certain purchase agreements ("2017 Purchase Agreements" and "The Supplemental 2017 HGCJ Master Purchase Agreement") with respective supplier for the purchase of raw materials necessary for the production activities of the Group on 16 December 2016 and 10 November 2017. A brief recap and actual amount of applicable taxes required to be paid of the transactions is as follows:

Date of agreement	Purchaser Group	Supplier Group	Materials for purchase	Term	Annual Caps RMB'000	2018 Actual RMB'000
16.12.2016	The Group	常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.) ("Changzhou Yousheng")	Acoustic component parts e.g. adhesives, domes and mesh	1.1.2017 - 31.12.2019	2017 - 76,050 2018 - 91,260 2019 - 100,620	43,391
16.12.2016 (revised on 10.11.2017)	The Group	常州市武進湖塘何家紅光沖件廠(公司名稱維持不變,因在2018年注銷改名為常州市武進紅光沖件有限公司之申請) (Wujin Hutang Hejia Hongguang Stamping Factory, the company name remains unchanged as the company applied to cancel the rename to Wujin Hongguang Stamping Co., Ltd. in 2018) ("HGCJ")	Packaging and stamping materials e.g. foam blocks, plastic boards, etc.	1.1.2017 - 31.12.2019	2017 - 67,760 2018 - 94,864 2019 - 119,025	75,397
16.12.2016	The Group	常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.) ("Changzhou Model")	Supplement materials in manufacturing process e.g. modules and stamping components of acoustic products	1.1.2017 - 31.12.2019	2017 - 58,500 2018 - 81,900 2019 - 105,300	33
16.12.2016	The Group	成都中科來方能源科技有限公司(自2018年12月起改名為四川茵地樂材料科技集團有限公司) (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd., renamed as Sichuan Yindile Materials & Technology Group Co., Ltd. from December 2018) ("Chengdu ZKLP" renamed as "YDL Materials")	Materials e.g. chemical materials	1.1.2017 - 31.12.2019	2017 - 35,100 2018 - 58,500 2019 - 93,600	2,891

The independent non-executive Directors had reviewed the continuing connected transactions in 2018 and are satisfied that the transactions were entered into by the Group (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has engaged its external auditor to review the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company also confirmed that the auditor had confirmed the matters set out in rule 14A.56 of the Listing Rules regarding the continuing connected transactions for the year ended 31 December 2018.

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

The Connected Relationship

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

The connected party	The person in relation with connected party
Changzhou LFY	A company owned by Mr. Pan's Father and Mr. Pan's Mother each as to 50%
Changzhou Model	A company wholly-owned by Mr. Pan's Father
Changzhou Yousheng	A company owned by Mr. Pan's Mother as to 30% and Ms. Pan Lijun, sister of Mr. Pan as to 70%
Chengdu ZKLP (renamed as ''YDL Materials'')	A subsidiary of Jiangsu Yuanyu
HGCJ	A company wholly-owned by Ms. Wu's Mother
HVPC	A subsidiary of HGCJ
Jiangsu Yuanyu	A company owned by Changzhou LFY and Changzhou Yulai (a company beneficially owned as to 50% by each of the Mr. Pan's Father and Mr. Pan's Mother)
Shenzhen Yuanyu	A company wholly-owned by Ms. Ye Huamei, mother of Ms. Wu

RELATED PARTY TRANSACTIONS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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, some of which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above:

Name of Shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 31 December 2018[1]
The Capital Group Companies, Inc. [2]	Interest of controlled corporation	206,846,423(L)	3,313(L)	16.98%
JPMorgan Chase & Co. [3]	Beneficial owner/Investment Manager/Trustee/ Approved lending agent	119,969,479(L) 815,183(S) 24,744,479(P)	1,998,208(L) 11,696,601(S) –	10.01% 1.03% 2.03%

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

Notes:

(1) Percentage was computed based on the issued 1,218,000,000 shares as at 31 December 2018.

(2) The Capital Group Companies, Inc., through its various 100% controlled corporations, is interested in an aggregate of 206,846,423 shares and unlisted derivative interests of 3,313 shares with physically settled in long position.

(3) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 119,969,479 shares and listed derivative interests of 218,000 shares with physically settled, listed derivative interests of 35,400 shares with cash settled, unlisted derivative interests of 428,308 shares with physically settled, and unlisted derivative interests of 1,316,500 shares with cash settled in long position; and (ii) an aggregate of 815,183 shares and listed derivative interests of 232,000 shares with physically settled, listed derivative interests of 102,650 shares with cash settled, listed derivative interests of 1 share with convertible instruments, unlisted derivative interests of 4,306,450 shares with physically settled, and unlisted derivative interests of 7,055,500 shares with cash settled in short position. Among them, 111,570,747 shares were held by JPMorgan Group as a trustee, including 111,545,122 shares held by J.P. Morgan Trust Company of Delaware which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above.

In addition to the above, JPMorgan Chase & Co. is also interested in 24,744,479 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

EMOLUMENT POLICY

The Remuneration Committee assisted the Board on formulating remuneration policy and reviewing the emoluments of senior management and the Directors of the Company. Responsibilities and work performed in 2018 by the Remuneration Committee are stated on pages 67 to 70 in the Corporate Governance Report.

PERMITTED INDEMNITY PROVISION

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

SHARE AWARD SCHEME

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "Scheme") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Scheme during its term is limited to 1.65% (i.e. 20,006,250 shares as at 22 March 2019 due to the cancellation of repurchased shares) of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 6,062,500 shares as at 22 March 2019 due to the cancellation of repurchased shares) of the issued share capital of the Company from time to time. Pursuant to the Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by Bank of Communications Trustee Limited (the "Trustee") at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 2018, no shares had been subscribed or purchased by the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been granted to Selected Employee(s) under the Scheme.

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

EQUITY-LINKED AGREEMENTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

At the annual general meeting (the "AGM") on 28 May 2018, the Company's shareholders granted a general mandate to the Directors of the Company to repurchase shares of the Company (the "Repurchase Mandate"). Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 10% of the total number of issued shares of the Company as at the date of the AGM (the "then Issued Shares").

Up to 31 December 2018, the Company had repurchased, under the Repurchase Mandate, a total of 6,000,000 shares, representing approximately 0.49% of the then Issued Shares. The aggregate consideration of HK$314.4 million for the repurchase was paid out from the Company's retained profits.

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

Details of the repurchases are as follows:

Month	Total number of the ordinary shares	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate consideration(1) (HK$'000)
November 2018	4,000,000	57.15	52.50	224,017
December 2018	2,000,000	46.20	43.95	90,393

Notes:

(1) Including brokerage, transaction levy, stamp duty and transaction cost of HK$730,000.

(2) 4,000,000 shares were cancelled in November 2018 and the remaining 2,000,000 shares were cancelled in January 2019.

Apart from the above, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the year ended 31 December 2018.

HUMAN RESOURCES

As at 31 December 2018, the Group employed 35,995 permanent employees, a decrease of 31% from 52,171 employees as at 31 December 2017, due to natural attrition of employees, 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 universities, 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 Q2 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 84.3% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 48.7% of the Group's total revenue from sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 27.0% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 10.5% of the Group's total purchases.

As at 31 December 2018, 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 annual report, had Ms. Wu's interests in the customer exceeded 1%. The Capital Group Companies, Inc. holding 16.98% 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

In accordance with the publicly available information and as far as the Directors of the Company are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31 December 2018 and has continued to maintain the public float as at the date of this annual report.

AUDITOR

The consolidated financial statements for the year have been audited by Messrs Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
AAC Technologies Holdings Inc.

Koh Boon Hwee
Chairman
22 March 2019

CORPORATE GOVERNANCE POLICY AND PRACTICES

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

Based on regular reviews of the Company's actual performance against the Corporate Governance Code, including the amendments effective from 1 January, 2019 (the "CG Code") in Appendix 14 of the Listing Rules, the Board is satisfied that throughout the financial year ended 31 December 2018, the Company complied with all the code provisions of the CG Code (the "Code Provision(s)"). Furthermore, the Company aims to go beyond 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, the Board and Committees conducting annual evaluation of the Board and Committees performance, and having effective whistleblowing policy in place.

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

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

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

BOARD AND EXECUTIVE MANAGEMENT

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

During the year, the day-to-day operating requirements and the related financial limits of a schedule of matters designated for management are discussed, reviewed, approved and updated by the Board. Management is to submit business plans or investment proposals to the Board if they fall outside the designated limits. The Board also reviews and approves the annual operating and capital budgets, and when appropriate, incremental items/amounts outside the approved budgets will be raised to the Board for approval. Under the supervision of the CEO, management is responsible for the daily operations of the Group. The CEO and senior management report on business operations, financial results and strategic matters to the Board on a quarterly basis, and provide key updates on a monthly basis.

GOVERNANCE STRUCTURE & BOARD COMMITTEES

Composition of Board and Committees

Board of Directors	
Koh Boon Hwee	(INED & Chairman of the Board)
Au Siu Cheung Albert	(INED) ~ Appointed on 1 February 2018
Tan Bian Ee	(INED)
Poon Chung Yin Joseph	(INED)
Pan Benjamin Zhengmin	(ED & CEO)
Mok Joe Kuen Richard	(ED)
Kwok Lam Kwong Larry	(INED) ~ Appointed on 1 February 2018
Peng Zhiyuan	(INED) ~ Appointed on 1 January 2019
Zhang Hongjiang	(INED) ~ Appointed on 1 January 2019
Wu Ingrid Chun Yuan	(NED)

Audit and Risk Committee* (all INEDs)	Nomination Committee* (all INEDs)	Remuneration Committee* (all INEDs)
Established in April 2005	Established in April 2005	Established in April 2005
Current Members	**Current Members**	**Current Members**
Au Siu Cheung Albert (Chairman)	Tan Bian Ee (Chairman)	Poon Chung Yin Joseph (Chairman)
Poon Chung Yin Joseph	Poon Chung Yin Joseph	Au Siu Cheung Albert
Kwok Lam Kwong Larry	Kwok Lam Kwong Larry	Tan Bian Ee

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

The Board's Roles and Responsibilities

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

Some of the key responsibilities of the Board include:

Strategy & Management

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

Corporate Governance, Risk Management & Sustainability

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

Financial Results

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

Effectiveness of Committees

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

Board Committees Structure

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

STAKEHOLDERS

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS & SENIOR MANAGEMENT

- Deliver the Company's strategies and objectives including assessing and identifying technology trends and development, for the Company
- Day-to-day management of the Group's businesses operation
- Analyse the global market situation and sales performance of the Company's products
- Provide input and reviewing on production planning
- Conduct products and key accounts analysis
- Perform sales & products strategy towards customers
- Estimate products sales status and forecast

AUDIT & RISK COMMITTEE

- Ensures proper financial reporting and disclosure
- Reviews risk management, compliance and internal control systems
- Monitors internal audit, oversees the relationship and coordination between the Company, Head of internal audit and external auditor

NOMINATION COMMITTEE

- Recommends Board appointments and ensuring proper and transparent procedures
- Reviews Board structure, size, composition and diversity of the Board
- Assesses independence of independent non-executive Directors
- Succession planning for Chairman and CEO
- Being consulted upon the hiring, promotion and appointment of senior management

REMUNERATION COMMITTEE

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

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

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

Delegation by the Board

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

Board Process

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

Board and Committees Evaluation

The non-executive Directors held meetings in the absence of the executive Directors during 2018 to evaluate the performance of the executive Directors and the effectiveness of the Board on 27 March and 22 August 2018.

In addition, we undertake a performance evaluation of our Board and Committees internally on a yearly basis. In March 2018, the Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee underwent an annual evaluation of their effectiveness and performance with regard to the year 2017 through completion of questionnaires by the Board and Committee members.

Questionnaire — Key Evaluation Areas

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

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

Independency of Directors

Mr. Koh has served the Company for more than 10 years. His corporate management and technology investment experience, and, knowledge of the business of the Company and the industry in which the Company operates continue to contribute significantly to the Company. Through exercising the scrutinizing and monitoring function of Chairman and an independent non-executive Director, he had contributed to an upright and efficient Board for the interests of Shareholders. During his tenure, Mr. Koh has been able to fulfill all the requirements regarding independence of an independent non-executive Director and provide annual confirmation of independence to the Company under Rule 3.13 of the Listing Rules.

Ms. Wu is not considered as independent, as she is the spouse of the CEO and together with the CEO and their family, has a substantial interest (holding approximately 40.66% interest (after the cancellation of repurchased shares) in the Company as at the financial year ended 31 December 2018). Her knowledge and investment experience of the industry in which the Company operates continue to contribute valuably to the functioning of the Board as a whole. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders. In the event that the interests of the Shareholder and the Company are not aligned, the Board prioritizes the Company's interests over that of any Shareholder. When the major Shareholder is materially interested in a matter, the relevant Directors will, according to the Articles, abstain from voting on such resolutions.

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

An updated list of Directors identifying their roles and functions and whether they are independent non-executive Directors has been published on 2 January 2019 on the websites of the Stock Exchange and the Company, and under the section of Biographies of Directors and Senior Management of this annual report on pages 28 to 38. Terms of appointment for all non-executive Directors (including independent non-executive Directors) were set out in the Directors' Report on pages 40 to 41.

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

Disclosure of Conflict of Interest

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

As disclosed in Directors' Report on page 49, as at 31 December 2018, 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 year and up to the date of this annual report, had Ms. Wu's interests in the customer exceeded 1%. Ms. Wu has never been director of the customer nor involved in its management.

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

Board Agenda Schedule

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

Board Activities

January - March 2018

- reporting from Audit and Risk Committee and other committees (if appropriate)
- 2017 annual results and report
- 2017 final dividend
- evaluation of Board performance for the year 2017
- audit matters for the year 2017
- re-appointment of external auditor
- connected transactions / continuing connected transactions
- directors' and officers' liability insurance
- sustainability Report for the year 2017
- risk management & internal controls
- corporate governance compliance
- AGM matters of 2018
- Company's policies
- business operation and legal updates

April - June 2018

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

July - September 2018

- reporting from Audit and Risk Committee and other committees (if appropriate)
- 2018 interim results and report
- interim dividend for the half year 2018
- audit matters for the half year 2018
- risk management & internal controls
- connected transactions / continuing connected transactions
- business operation and legal updates

October - December 2018

- reporting from Audit and Risk Committee and other committees (if appropriate)
- quarterly results
- budget for the forthcoming year
- connected transactions / continuing connected transactions
- ground breaking for global R&D headquarters in Singapore
- business operation and legal updates

January - March 2019

- reporting from Audit and Risk Committee and other committees (if appropriate)
- 2018 annual results and report
- 2018 final dividend
- evaluation of Board performance
- audit matters for the year 2018
- re-appointment of external auditor
- connected transactions / continuing connected transactions
- directors' and officers' liability insurance
- sustainability report for the year 2018
- risk management & internal controls
- corporate governance compliance
- AGM matters of 2019
- Company's policies
- updating terms of reference of the Audit and Risk Committee and Remuneration Committee
- business operation and legal updates

Work done by the Board in 2018 and to date:

During the year 2018 and up to the date of this annual report, the Board performed, considered and/or resolved the following matters:

Policies

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

Stakeholders

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

Business and Financial Operations

- reviewed the strategic plans for the Company's core businesses to meet short-term objectives and to strengthen medium-term competitiveness
- ongoing assessment of the Company's technology capabilities, with a view to enabling the Company to reach another level of commercial success and sustainability
- reviewed new opportunities in our core business portfolio with management
- reviewed and considered the annual budget, disposals and acquisitions proposals and other significant operational and financial matters
- reviewed accounting principles and practices and approved the relevant quarterly, interim and annual results and financial statements and the related announcements
- reviewed monthly operations and financial updates, and, where appropriate, approved the related announcements (if any)
- reviewed the Environmental, Social and Governance ("ESG") policy
- approved and published our annual sustainability reports for the year of 2017 and 2018
- submitted resolution at the AGM for re-appointment of external auditor

Corporate Governance

- performed the duties of corporate governance functions under Code Provision D.3.1
- reviewed the segregation of duties between Chairman & CEO
- reviewed and evaluated the Enterprise Risk Management ("ERM") system for the Group
- reviewed and evaluated internal audit reports and the effectiveness of the risk management and internal control systems over financial, operational and compliance matters
- reviewed the follow up actions of internal evaluation of the Board performance

Board Committees

- reviewed terms of reference of the Nomination Committee and Board & Directors' Duties
- reviewed and approved updated terms of reference of the Audit and Risk Committee, and Remuneration Committee
- adopted the new Nomination Policy with effect from 27 March 2018
- reviewed and approved the recommendations made by the Nomination Committee and Remuneration Committee
- considered the nomination and remuneration of the new independent non-executive Directors
- renewed the appropriate insurance coverage for Directors and Officers arranged by the Company

Directors' Attendance in Board Meeting, Committee Meetings & AGM

During the financial year ended 31 December 2018, the Board convened a total of 7 Board meetings and the AGM. Each Director is expected to attend each meeting of the Board and the Committees on which he or she serves. Directors are also expected to attend the Company's AGM or otherwise absent with a valid reason. Most of the Directors attended the Company's 2018 AGM.

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

Directors	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	AGM
Total Number of Meetings	7	4	3	3	1
Executive Directors					
Pan Benjamin Zhengmin (CEO)	7	N/A	1	N/A	1
Mok Joe Kuen Richard	7	4	3	3	1
Independent Non-executive Directors					
Koh Boon Hwee (Chairman of the Board)	7	3	1	2	1
Tan Bian Ee	7	N/A	3	3	1
Poon Chung Yin Joseph (Note 1)	7	4	3	2	1
Joined as INEDs on 1 February 2018 (Note 2)					
Au Siu Cheung Albert	6	3	1	2	1
Kwok Lam Kwong Larry	6	4	2	1	1
Joined as INEDs on 1 January 2019 (Note 3)					
Peng Zhiyuan	N/A	N/A	N/A	N/A	N/A
Zhang Hongjiang	N/A	N/A	N/A	N/A	N/A
Retired as INED on 28 May 2018 (Note 4)					
Chang Carmen I-Hua	1	N/A	2	2	1
Non-executive Director					
Wu Ingrid Chun Yuan	7	2 (Note 5)	1	N/A	—

Note 1: Mr. Poon was appointed as the Chairman of Remuneration Committee, and retired as the Chairman of Audit and Risk Committee but has remained to be a member of Audit and Risk Committee with effect from 28 May 2018

Note 2: Mr. Au was appointed as the Chairman of Audit and Risk Committee and member of Remuneration Committee, and Mr. Kwok was appointed as a member of Audit and Risk Committee and member of Nomination Committee with effect from 28 May 2018

Note 3: Mr. Peng and Mr. Zhang were appointed as independent non-executive Directors with effect from 1 January 2019

Note 4: Ms. Chang has retired as an independent non-executive Director and member of Remuneration Committee and member of Nomination Committee with effect from the conclusion of the AGM held on 28 May 2018

Note 5: Ms. Wu has ceased as member of Audit and Risk Committee with effect from 28 May 2018

Directors' Time and Directorship Commitments

All independent non-Executive Directors are engaged by formal letters of appointment with a term of not more than 3 years, and they commit to the Company that they will be able to give sufficient time and attention to meeting the high expectations placed upon them.

Directors have disclosed to the Company the number and nature of their offices held in Hong Kong and overseas listed public companies or organizations and other significant commitments. As at 31 December 2018, none of our independent non-executive Directors, individually, held directorships in more than seven listed public companies (including the Company). The most directorships of listed public companies held by one independent non-executive Director is five. One of the newly appointed independent non-executive directors holds four directorships in listed public companies. Our Executive Directors do not hold directorship in other listed public companies; however, they are encouraged to participate in professional, public and community organizations. The Board will regularly review the contribution required by a Director to perform his/her responsibilities to the Company and whether he/she is spending sufficient time performing his/her duties.

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

Directors' Continuous Training and Development

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

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

During the year ended 31 December 2018, the Company provided Directors reading materials, briefing and updates and training on business, operations, corporate governance, regulatory development and other relevant topics. All Directors had provided to the Company records of training they received during the year. The Board is of the view that all Directors have demonstrated sufficient participation in developing and refreshing required knowledge and skills as part of the continuous professional development programme during the year. Set out below are the details of all directors' participation in continuous professional development during the financial year ended 31 December 2018:

Directors	Reading materials in relation to legal, regulatory & industry updates	Briefing and updates on business and operation	Training/ Seminars	Other professional developments
Independent Non-executive Directors				
Koh Boon Hwee (Chairman of the Board)	✓	✓	✓	✓
Au Siu Cheung Albert (Appointed on 1 February 2018)	✓	✓	✓	✓
Tan Bian Ee	✓	✓	✓	✓
Poon Chung Yin Joseph	✓	✓	✓	✓
Kwok Lam Kwong Larry (Appointed on 1 February 2018)	✓	✓	✓	✓
Peng Zhiyuan (Appointed on 1 January 2019)	N/A	N/A	N/A	N/A
Zhang Hongjiang (Appointed on 1 January 2019)	N/A	N/A	N/A	N/A
Non-executive Director				
Wu Ingrid Chun Yuan	✓	✓	✓	✓
Executive Directors				
Pan Benjamin Zhengmin (CEO)	✓	✓	✓	✓
Mok Joe Kuen Richard	✓	✓	✓	✓

Individual Board Committees

Audit and Risk Committee

Roles and Authority

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

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

Quarterly Review and Connected Parties Transactions

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

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

As such, every quarter, the Audit and Risk Committee will review and ensure the effectiveness of the internal control system related to connected parties transactions. The identification and capturing of connected parties are proactively managed by senior management of the supporting services, procurement and finance departments. The working and updatedness of this system are vouched by internal audit and external auditor. Major terms of the transactions with connected parties are contracted on a formal basis. The commercial beneficial reasons and the arm's length pricings are ascertained by internal audit and subsequently reviewed by the external auditor. The integrity of the existing accounting system will ensure the accounting accuracy and completeness of such transactions. Our compliance lawyer will be involved in the review of regulatory disclosure. During the year, no regulatory disclosure was required as there was no new continuing connected transaction nor new requirements.

Audit and Risk Committee Activities

January - March 2018

- annual results and report for the year 2017
- basis of final dividend for the year 2017
- audit review matters from Auditor
- re-appointment of Auditors
- connected transactions / continuing connected transactions
- internal audit function
- risk management & internal controls
- corporate governance compliance
- sustainability report for the year 2017
- accounting policy and practices as well as any account estimation
- Committee's terms of reference and the Company's policies

April - June 2018

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

July - September 2018

- 2018 interim results and report
- audit review matters from Auditor
- connected transactions / continuing connected transactions
- internal audit function
- risk management & internal controls
- accounting policy and practices as well as any account estimation

October - December 2018

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

January - March 2019

- annual results and report for the year 2018
- basis of final dividend for the year 2018
- audit review matters from Auditor
- re-appointment of Auditors
- connected transactions / continuing connected transactions
- internal audit function
- risk management & internal controls
- corporate governance compliance
- sustainability report for the year 2018
- accounting policy and practices as well as any account estimation
- Committee's terms of reference and the Company's policies

During the financial year ended 31 December 2018, the Audit and Risk Committee held 4 meetings. To reinforce the Company's ERM focus, high-risk areas identified in the external auditor's planning memorandum were discussed and special internal audit procedures were agreed where deemed appropriate.

Review of Financial Results

On 18 March 2019, the Audit and Risk Committee reviewed this annual report, including the Corporate Governance Report, the Director's Report and the Group's financial statements for the year ended 31 December 2018 and the annual results announcement with a recommendation to the Board for approval. The Audit and Risk Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2018 and internal audit plan for 2019.

Work done by the Audit and Risk Committee in 2018 and to date:

During the year 2018 and up to the date of this annual report, the Audit and Risk Committee, performed, considered and/or resolved the following matters:

Financial information

- the 2017 and 2018 annual reports including the Corporate Governance Reports, the Directors' Reports and the Group's financial statements for the years ended 31 December 2017 and 2018 and the annual results announcements, with recommendations to the Board for approval
- the 2018 first quarterly results including the Group's first quarterly financial statements for the three months ended 31 March 2018 and the relevant results announcement, with a recommendation to the Board for approval
- the 2018 interim report including the Group's interim financial statements for the six months ended 30 June 2018 and the interim results announcement, with a recommendation to the Board for approval
- the 2018 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30 September 2018 and the relevant results announcement, with a recommendation to the Board for approval
- the Group's tax review report carried out by an independent professional firm
- reports on new investments of the Group
- compliance by the Company with the Code Provisions throughout the year ended 31 December 2017 and throughout the six months ended 30 June 2018
- the Company's compliance with the Listing Rules, Companies Law of the Cayman Islands, Hong Kong Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2018. To the best of knowledge of the Audit and Risk Committee's members, no breaches were identified
- overall compliance with Recommended Best Practices of the CG Code and other legal and regulatory compliance matters

External Auditor

- the reports and management letters submitted by external auditor, which summarized matters arising from the audit on the Group for the years ended 31 December 2017 and 2018, including auditing, accounting and tax matters, and internal controls, together with management's progress in addressing matters raised, and the confirmation from external auditor that there were no high-risk matters identified which were not satisfactorily resolved or being addressed
- the audit fees payable to external auditor for the year ended 31 December 2017 and external auditor's scope, plan and fees for the year ended 31 December 2018 with a recommendation for approval by the Board
- the effectiveness of the external auditor giving due consideration to the quality and contents of their reports to the Audit and Risk Committee, feedback from management and compliance with relevant regulatory, professional requirements and their independence, with a recommendation for their re-appointment for the financial year 2018, subject to final approval by Shareholders (given on 28 May 2018)
- the safeguard of external auditor objectivity and independence in proposed engagement in respect of audit-related and permissible non-audit services; met with the external auditor and discussed the audit report to management
- recommendation of re-appointment of external auditor for Shareholders' approval in 2018 and 2019 AGM

Risk Management and Internal Controls

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

Nomination Committee

Board Diversity

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance and has adopted a board diversity policy which is available on the Company's website. A truly diverse Board will include and make good use of differences in the knowledge, skills, 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.

The Board believes that the long tenure of some of the independent non-executive Directors does not compromise their independence but instead brings significant positive qualities as referred above. The Board, however, recognizes the importance of succession to balance the mix of deep understanding of the Group's business with fresh ideas and perspectives.

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

Name	Pan Benjamin Zhengmin	Mok Joe Kuen Richard	Koh Boon Hwee	Au Siu Cheung Albert	Tan Bian Ee	Poon Chung Yin Joseph	Kwok Lam Kwong Larry	Peng Zhiyuan	Zhang Hongjiang	Wu Ingrid Chun Yuan
Gender	Male	Male	Male	Male	Male	Male	Male	Male	Male	Female
Age	50	55	68	67	72	64	63	46	58	48
Academic Background	Graduated from the Jiangsu Province Wujin Teacher School	Bachelor Degree of Economics	Bachelor Degree in Mechanical Engineering	N/A	Diploma in Medical Laboratory Technology & Management Studies	Bachelor of Commerce Degree	Master Degree in Laws	Master Degree in Business and Administration	Ph.D in Electrical Engineering	Graduated from Changzhou School of Public Health
Length of service	13 years	12 years	13 years	1 year	9 years	9 years	1 year	<1 year	<1 year	13 years
Skills, knowledge & professional experience										
(a) Accounting & Finance		✓		✓		✓	✓	✓		✓
(b) Corporate Responsibility/ Sustainability		✓	✓		✓	✓	✓	✓		
(c) Executive management and leadership skills	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(d) Financial Service		✓	✓	✓		✓	✓	✓		
(e) Human Resources			✓		✓	✓				
(f) Information Technology & Security			✓		✓				✓	
(g) Investment Banking/Mergers & Acquisitions	✓		✓				✓	✓		✓
(h) Investor Relations	✓	✓	✓			✓				
(i) Legal		✓					✓			
(j) Other listed Board Experience/ Role		✓	✓	✓	✓	✓	✓		✓	✓
(k) Risk Management		✓		✓		✓	✓	✓		
(l) Strategic Planning	✓	✓	✓	✓	✓	✓	✓		✓	
(m) Technologies & Manufacturing	✓		✓		✓				✓	

The Nomination Committee reviewed the Board's composition under diversified perspectives and monitored the implementation of the Board Diversity Policy and considered that the 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 is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the composition, structure, size and diversity of the Board, the appointment and re-appointment of Directors and the assessment on independence of independent non-executive Directors, and ensuring the proper and transparent procedures for the appointment and re-appointment of Directors, succession planning for Chairman and CEO. The Committee is also consulted upon the hiring, promotion and appointment of senior management.

Nomination Policy & Practice

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

Process for appointing a Director

Shareholders

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

Proposed Director

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

Board

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

Newly appointed Directors:

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

Existing Directors:

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

Nomination Committee

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

Interviews with candidates

Identification of candidates

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

Nomination Committee Activities

January - March 2018 (two times)

- review of the structure, size and composition of the Board and Board Diversity Policy
- assessment of the independence of independent non-executive Directors
- recommendation to the Board on re-election of retiring Directors
- approval of the nomination of 2 identified new INEDs and recommendation to the Board for approval in February 2018

October - December 2018 (one time)

- approval of the nomination of 2 identified new INEDs and recommendation to the Board for approval in January 2019

January - March 2019 (one time)

- review of the structure, size and composition of the Board and Board Diversity Policy
- assessment of the independence of independent non-executive Directors
- recommendation to the Board on re-election of retiring Directors

Work done by the Nomination Committee in 2018 and to date:

During the year 2018 and up to the date of this annual report, the Nomination Committee convened four meetings to perform, consider and/or resolve the following matters:

Directors' Independency

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

Board Composition

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

Appointment, retirement and re-election of Directors

- reviewed and recommended to the Board the terms of appointment of the non-executive Directors (including independent non-executive Directors), which are set out in the "Directors and service contracts" section of the "Directors' Report" on pages 40 to 41 of this annual report
- reviewed and agreed the annual list of retiring Directors in relation to the requirement set out in the Articles and in compliance with the Code Provision A.4.2, which all Directors (including executive Directors, non-executive Director and independent non-executive Directors) are subject to retirement by rotation at least once every three years
- potential candidates were identified and proposed to the Nomination Committee of the Company for consideration. The Nomination Committee considered the outlook of the Company and recognized the needs to bring new insights to the Board, particularly in the areas of technology, legal, finance and accounting. Candidates were arranged to meet with the Directors before formally nominated
- followed the nomination process stated in the Nomination Policy & Practice above and in 2018, nominated four candidates to be new independent non-executive Directors. Two new independent non-executive Directors were recommended to the Board in January 2018 and whose appointments were approved and took effective from 1 February 2018. Another two new independent non-executive Directors were recommended to the Board in December 2018 and whose appointments were approved and took effective from 1 January 2019. The Nomination Committee is of the view that the balance of the new structure, size, composition and diversity of the current Board is adequate to its effective performance

Directors' Biographical Information

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 28 to 38 of this annual report. Except for the family relationship between Mr. Pan and Ms. Wu, as disclosed in Directors' biographical information on pages 28 and 37 of this annual report respectively, there is no financial, business, family or other material relationship between any members of the Board, and, in particular, between the Chairman and the CEO.

Remuneration Committee

Roles and Authority

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

Remuneration Committee Activities

January - March 2018 (two times)

- review of the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board
- review of the existing non-executive Directors' remuneration
- review of the Group performance for 2017 and 2018 and Group targets for 2018 and 2019
- review of senior executive remuneration, including annual incentive payments for 2017 and 2018 and annual pay review for 2018 and 2019
- review of remuneration packages and appointment letters of the candidates who had been appointed as new independent non-executive Directors in February 2018
- recommendation of the above to the Board for approval

October - December 2018 (one time)

- review of remuneration packages and appointment letters of the candidates who had been appointed as new independent non-executive Directors in January 2019

January - March 2019 (one time)

- review of the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board
- review of the existing non-executive Directors' remuneration
- review of the Group performance for 2018 and 2019 and Group targets for 2019 and 2020
- review of senior executive remuneration, including annual incentive payments for 2018 and 2019 and annual pay review for 2019 and 2020
- review of the terms of reference of Remuneration Committee
- recommendation of the above to the Board for approval

Work done by the Remuneration Committee in 2018 and to date

During the year 2018 and up to the date of this annual report, the Remuneration Committee convened four meetings to perform, consider and/or resolve the following matters:

Terms of Reference

- reviewed its terms of reference

Remuneration and Performance

- reviewed the remuneration package of executive Directors, non-executive Directors and senior executives and their incentive payments and assessed their performance for the years of 2017 and 2018
- reviewed the Group performance for 2017 and 2018 and Group targets for 2018 and 2019
- reviewed remuneration package, and appointment letters of the candidates who had been appointed as independent non-executive Directors in 1 February 2018 and 1 January 2019, respectively

Directors & Senior Management' Remuneration

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

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 to the financial statements.

Director Compensation Arrangements

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

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

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

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

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

Group Emoluments Arrangement

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

The remuneration of members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of individuals
HK$3,000,001 to HK$3,500,000	1
HK$9,000,001 to HK$9,500,000	1

Directors' and Officers' Insurance

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

Share Award Scheme

The Company on 23 March 2016 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) in the shares prior to the vesting of the shares.

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

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

CORPORATE GOVERNANCE CODE

The Company has continued to fully comply with requirements of the Code Provisions for the financial year ended 31 December 2018. The Board has ensured that all Board Committees were represented through the Directors in attendance at the AGM to answer questions that might be raised. To ensure a balanced understanding of the views of Shareholders is maintained by all independent non-executive Directors, the Company provides regular Shareholders' feedback from the Company's investor relations programme.

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

Recommended Best Practices	Adopted by the Company
Quarterly financial results announcement	Since listing, the Company has adopted quarterly reporting of financial results. p. 60 has more details.
A significant proportion of the executive Directors' remuneration should link rewards to corporate and individual performance	A significant proportion of an executive Director remuneration has been linked to corporate and individual performance since his appointment. p. 51, 70 and 130 have more details.
Whistleblowing Policy for employees and other stakeholders (e.g. customers and suppliers)	A whistleblowing policy and an established process has been in place since 2012 to ensure all matters of concerns are addressed. p. 76-77 have more details.
Regular Board Evaluation	The Board conducts an annual evaluation of its and the committees' performance. p. 54 has more details.
Management's confirmation on the effectiveness of risk management and internal control systems	The Board has received confirmation from management on a semi-annual basis. p. 73 has more details.

LEGAL AND REGULATORY COMPLIANCE

Compliance

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

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

Dividend Policy

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

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

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

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

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

Model Code For Securities Transactions by Directors

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transaction by Directors of Listed Issuer (the "Model Code") as set out 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 year ended 31 December 2018. Furthermore, as discussed, the Nomination Committee has reviewed and assessed the information submitted by the Directors and is of the view that the Directors are in compliance with the required standard.

COMPANY SECRETARY

All Directors have access to the advice and the professional services of the company secretary, who is a representative from an external secretarial services provider, appointed since August 2010. In addition to company secretarial matters of the Company, the company secretary is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors. The primary contact persons of the Company with the company secretary are Mr. Jonathan Ho and Ms. Kennes Wong, the Legal Director and the Board secretary of the Company. The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

INTERNAL AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

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

Governance Framework — Internal Control & Risk Management Process

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

Risk Governance & Oversight

The Company has always valued the importance of the internal control systems, and has been referencing certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by COSO (the Committee of Sponsoring Organizations of the Treadway Commission). Internal Audit has incorporated these critical aspects in its audit planning and objectives when assessing the effectiveness of internal controls. Also, Internal Audit has already included in its work scope to cover financial reporting objectives and has increased focus on operations and compliance aspects. IT audit focuses on IT and information security risks in respect of strategy, operations, compliance, reputation and infrastructure. Report of the evaluation and implementation of such information security plans, policies and processes are discussed quarterly, and modified as appropriate, by the Audit and Risk Committee. During this year, with reference to CoBit and Critical Security Controls framework, the Company enhanced its cyber risk vulnerability controls management through various policies updates and employees training and again received the certification of ISO27001. On the basis of the evaluation carried out by Internal Audit during the year, management has formed the conclusion that, for the financial year ended 31 December 2018, the Company's internal controls over the Company's financial and non-financial reportings were effective.

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

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

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

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

Enterprise Risk Management

Since 2012 the Company has embarked on the journey of building an ERM system with a view to enhancing the risk management and corporate governance practice and improving the effectiveness and efficiency of internal control system across the whole Company. In 2018, the Company has procured and allocated more resources, including external professional resources, to continue to refine ERM and the risk-driven approach for its internal audit plan. Relevant departments, assisted by the additional resources, conducted reviews and updates on risk assessment and internal controls by key management processes. The Board believes that a heightened focus on risk and compliance is beneficial for the ongoing development and growth of the Company as well as its staff. In establishing the ERM system, all key functions of the Company undertake the following exercises:

1. Enterprise risk assessment (ERA) — to identify and prioritize the Company's key business risks; and
2. Process level control assessment — to assess the related internal control matters and risk mitigating measures.

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

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

Effectiveness Review of Risk Management and Internal Control Systems

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

EXTERNAL STATUTORY AUDIT

The Directors acknowledge responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2018, the Directors have selected suitable and applied consistent accounting policies, made reasonable judgments and prudent estimates in preparing the Financial Statements on a going concern basis. Reporting responsibilities of the external auditor of the Company are set out on pages 87 to 88 of this annual report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the Financial Statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Furthermore, the Directors are aware of the responsibility for keeping proper accounting records which could provide the financial position of the Company with reasonable accuracy at all times.

Auditor's Remuneration

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

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

During the year ended 31 December 2018, the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Types of service	2018 HK$'000
Audit services (including continuing connected transactions limited assurance)	3,701.5
Non-audit	
(i) Interim Financial Information review	937.2
(ii) Taxation compliance	51.0
Total	4,689.7

The representative of Deloitte has been attending the AGMs, and as usual in 2018, to answer questions from Shareholders.

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

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

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

The Company upholds ethical principles through the business ethics monitoring system led by the ethics committee which is chaired by the CEO. Our ethics working groups involve human resources, legal and internal audit departments, reporting and handling any cases of unethical behavior and evaluating the management system. During the year, the Company received 51 reported cases related to business ethics, which mainly involve employee discipline, payment arrangement for suppliers, unreported conflict of interests and expenditure reimbursement etc. 42 cases had been resolved, with half of them as valid cases, with the remaining 9 cases are under processing. No senior management staff were involved in these incidents. Necessary follow-up actions have been implemented through relevant departments as well as carry out disciplinary actions, in order to prevent reoccurrence of similar cases.

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

SHAREHOLDERS ENGAGEMENT AND VALUE

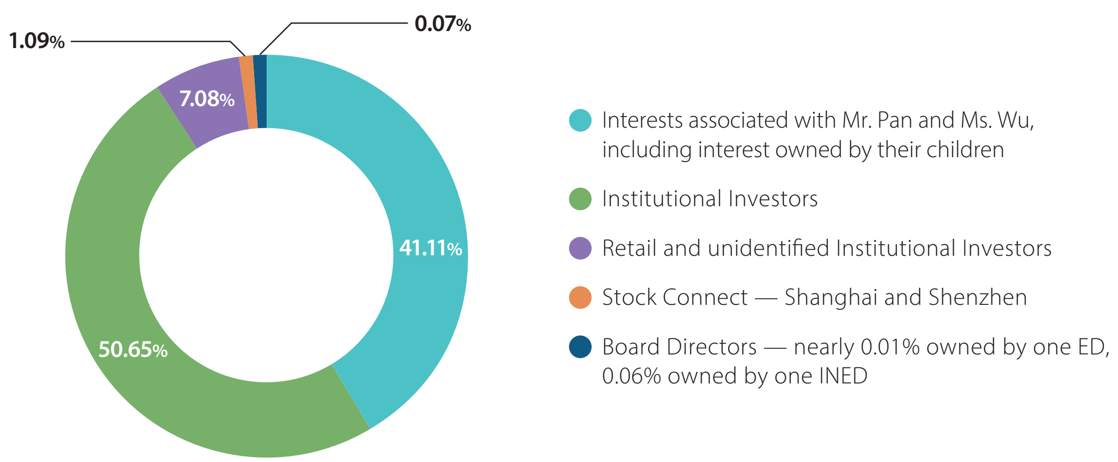
Shareholders

Almost all the Shareholders are holding the Company's shares through nominees or intermediaries such as HKSCC Nominees Limited. Hence, the register of members of the Company only had 56 direct registered Shareholders as at 31 December 2018. Separately, as the Company's shares are eligible for trading in the Shanghai/Shenzhen-Hong Kong Stock Connect, an aggregate shareholding was held through China Securities Depository and Clearing Corporation Limited as one single Shareholder, which as at 31 December 2018, amounted to 13.26 million shares, or representing 1.09% of total issued shares, of the Company.

The Company analyses its shareholding structure on a regular basis, including a review of the register of institutional and retail investors, to keep track of changes in shareholdings by type of investors. A shareholding register analysis was conducted as at 31 December 2018 and revealed the shareholding structure as follows:

I) **Shareholders by Category:**

(per Shareholder Analysis as at 31 December 2018, rounded to nearest 0.01%)



II) Shareholders by Domicile:

	% of Total Issued Shares
Hong Kong	55.5
North America	30.4
United Kingdom	4.5
Singapore	4.0
Europe (ex-United Kingdom)	2.9
Rest of World	1.5
China	1.2
Total	100

Notes:

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

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

3. The approximate percentage of shareholding is calculated on the basis of 1,218,000,000 shares in issue (after the cancellation of repurchased shares) as at the financial year ended 31 December 2018.

Corporate Disclosure

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

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

Communications with Shareholders and Investment Community

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

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

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

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

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

As part of the process in dealing with "Inside Information", the investor relations team observes "Quiet Periods" that begin one calendar month prior to the announcements of its quarterly, interim and annual financial results to avoid the potential for selective disclosure or its perception of doing so. During the Quiet Periods, there will not be any IR-related access to senior management. The updated Corporate Disclosure Policy and Shareholders Communication Policy were approved by the Board on 22 March 2019. The Corporate Disclosure Policy, Shareholders Communication Policy and "Quiet Periods" policy are all posted on the Company's website.

During 2018, the Company held a series of activities in relation to its quarterly, interim and annual results announcements, including panel discussions with Shareholders and the investment community via webcast/teleconferencing and participation in different conferences, forums and non-deal roadshows in Hong Kong and other parts of the world organized by different brokers. Factory visits were also organized periodically for Shareholders and the investment community. This helps the Company meet the goal of establishing sound relationships with Shareholders and the investment community and maintaining a solid and diverse Shareholder base. Furthermore, there are regular sessions held with local-based securities brokers, the local and overseas press and media representatives for timely distribution of information to non-institutional investors.

At the 2018 AGM held on 28 May 2018, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of each of the retiring Directors. Procedures for conducting a poll were explained by the Chairman at the meeting. The Chairman of the Board and members of Board Committees were present, prepared to answer questions, if any, from Shareholders. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Listing Rules on the same date. No other general meeting was held during the year.

SHAREHOLDERS' RIGHTS

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

Procedures for Shareholders to Convene EGM

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

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

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

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

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

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

Procedures for Putting Enquiries to the Board

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

Procedures for Putting Forward Proposals at General Meetings

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

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

Constitutional Documents

During the year ended 31 December 2018, there was no change to the Company's constitutional documents.

Sustainability

Sustainable development is an important core value of the Company: a concomitant commitment to developing innovative solutions. The Company focuses on growing responsibly, expanding talent pool, achieving operational excellence and giving back to community. Through continual engaging with our stakeholders to enhance our sustainability strategy, the Company strives to achieve sustainable business growth amid environmental and social impact generated.

The Company is determined to improve its levels of transparency over time, setting industry benchmark and creating value for its stakeholders. Realising the value of sustainability reporting, the Company seeks ongoing improvement on transparency including expanding the reporting boundary, optimising its sustainability data collection management system and engaging third-party verification. In addition to adhering to the HKEX's Appendix 27, the Company has started aligning its climate-related disclosure with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)[1], commencing in the forthcoming sustainability report. Pursuing closer alignment with other frameworks such as GRI, SDGs and <IR>, the Company aims to present a more balanced and transparent picture to its stakeholders including customers, institutional and public investors, regulators, employees, business partners, etc. Our sustainability report with detailed ESG performances will be published on 18 April 2019 and shall be available on websites of the Hong Kong Stock Exchange and the Company.

STAKEHOLDER ENGAGEMENT

The Company has been engaging stakeholders to identify risks and opportunities relating to ESG. The Company believes the pursuit of next generation smart device solutions is inter-linked with its ESG performance, creating significant implications for its key stakeholder groups. Maintaining a focused and regular dialogue is, therefore, critical to our success.

Employees

To meet the productivity challenges, employees have been increasingly retrained and reallocated to appropriate positions in 2018, the total number of employees has declined due to natural attrition of employees, adoption of automation and enhancement of production efficiency. Acquiring talent remains the top agenda for the Company. Young graduates are recruited and nurtured as the new engineering workforce catering for the next generation innovative capabilities. Responding to ideas raised by the young millennial engineers, the Company has broadened its communication channels to include regular seminars with senior management and social media, ensuring their views are heard, discussed and adopted as appropriate.

The Company's triple-channel training system enables clear training roadmaps for employees in management, technical and professional areas. To ensure management succession, the Company continues to collaborate with Harvard Business School and China Europe International Business School; senior executives are attending development programmes focused upon strategic and global mindsets as well as practical management skills.

During the year, the Company was not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to employment and labour practices; and occupational health and safety.

1 Task Force on Climate-related Financial Disclosures, formed by US's Financial Stability Board, published a recommendation document which provides context, background, and the general framework for climate-related financial disclosures. HKEX added this as a recommendation to its ESG Reporting Guide.

Suppliers

The Company continued to monitor suppliers' performance with regard to the environment, health and safety, and social responsibility during the year. By adopting a risk-based supply chain assessment methodology, suppliers are assessed regularly and the management approach is evaluated on a regular basis.

By implementing the supplier code of conduct and conducting training, the Company aims to ensure alignment of suppliers' business principles, conduct and standards of its suppliers. In particular, raw material procurement contracts require the suppliers to act in accordance with requirements set out in the Electronic Industry Citizenship Coalition. Also, all suppliers are subjected to due diligence, ensuring supplies do not include any Conflict Minerals.

Customers

Customer satisfaction is the outcome of the Company's operational excellence. In 2018, the Company has further segmentized the management of customer satisfaction. Instead of gauging overall figure, the Company has tailor-made specific plans for customers. Feedbacks are collected on a timely and regular basis, evaluated in collaboration with various departments including customer service, quality control, to ensure the goals of the Company are aligned with those of its customers.

When handling customer complaints, the Company forms a response team to analyse defects and implement improvement measures in accordance with the Quality Data Management System. Before closing of any case, the Company will complete an analysis and improvement report according to the eight disciplines methodology for customer's confirmation, preventing recurring problems.

MANAGING ENVIRONMENTAL IMPACT

Facing the increasingly stringent environmental regulations in China, where major operations are located, the Company not only meets the compliance requirements, but also strives to exceed. For example, having received certification under the ISO 14001 standard for most of the major manufacturing bases in China and Vietnam, the Company is determined to reach 5% lower than the carbon emissions quota set by the Shenzhen Municipal government in 2018. As the next step, the Company has commenced establishment of an energy management system, stepping up monitoring of use of energy and setting annual consumption target.

Regulatory Compliance

The Company has strictly complied with environmental laws and regulations at all locations where it has operations. These include the Environment Protection Tax regulation, the Prevention and Control of Environmental Pollution of Solid Waste, Environmental Noise, Air Pollution and Water Pollution, the Promotion of Clean Production, the Appraisal of Environment Impacts, the Administrative Regulations on Environmental Protection for Construction Project and Conserving Energy.

During the year, the Company was not aware of any material non-compliance of laws and regulations that have a significant environmental impact relating to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

SUSTAINABILITY RECOGNITION

Our Company issues a stand-alone Sustainability Report every year since 2013. The Sustainability Report discloses the details of sustainability performance, initiatives and its progress on environmental, social and governance issues for the year. The Sustainability Report for 2018 will be published on 18 April 2019. Please visit the website www.aactechnologies.com to download the Sustainability Reports.

The Company has been listed as a constituent of the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland China and Hong Kong) Corporate Sustainability Index for the fifth year running since 2014. Selection is based on a sustainability assessment undertaken by Hong Kong Quality Assurance Agency (HKQAA), an independent and professional assessment body based in Hong Kong.

The Company's 2017 Sustainability Report has been bestowed, by the Hong Kong ESG Reporting Awards 2018 and BDO ESG Awards 2019, the "Best ESG Report (Large-cap)" "Best in GRI Report", "Innovative Frontrunner", and "Best in Reporting" awards respectively. The Company was recognized by Institutional Investor with the accolades of "Best ESG/SRI Metrics" and "Best Corporate Governance". We also received the "Hong Kong Outstanding Corporate Citizenship" from Hong Kong Productivity Council for the second consecutive years. Our Hong Kong office was awarded World Green Organization's "Green Office and Eco-Healthy Workplace Awards" label.

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 169, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
Inventory costing and estimated allowance of inventories	
We identified inventory costing and the estimated allowance of inventories as a key audit matter due to the fact that inventories and the related cost of goods sold are significant to the consolidated financial statements as a whole as well as the use of judgement and estimates by the management in estimating the allowance of inventories. Cost of inventories are determined on a weighted average method and management reviews the inventory costing on a regular basis to ensure accuracy. In respect of the allowance of inventories the management determines the allowance with reference to the aging analysis and the estimated net realisable value for obsolete and/or slow-moving inventory items that are no longer suitable for use in operation at the end of each reporting period (refer to notes 4 and 21 to the consolidated financial statements). As at 31 December 2018, the carrying amount of the Group's inventories was RMB3,319,480,000. During the year, the Group recognised and charged an allowance for obsolete inventories of RMB60,566,000 to the consolidated statement of profit or loss and other comprehensive income. Details of the Group's inventories are set out in note 21 to the consolidated financial statements.	Our procedures in relation to inventory costing and estimated allowance of inventories included: • Obtaining an understanding on how costing of inventories is determined and calculated and how management estimates the allowance of obsolete and slow-moving inventory items; • Understanding the key controls relating to the costing of inventories, identification of aged and obsolete inventories and preparation of aging analysis of inventories; • Reperforming the calculations of the costing of inventories on a sample basis and agreeing to source documents; • Obtaining the inventory aging analysis and agreeing its classification by age on a sample basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories as identified from the inventory aging analysis; and • Testing subsequent sales or usage of inventories on a sample basis.

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chu, Johnny Chun Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**18,131,153**	21,118,566
Cost of goods sold		**(11,388,078)**	(12,398,639)
Gross profit		**6,743,075**	8,719,927
Other income, gains and losses		**236,556**	115,679
Gain on final settlement of earn-out consideration	16	**147,830**	–
Fair value loss on financial assets at fair value through profit or loss	16	**(118,881)**	–
Distribution and selling expenses		**(316,521)**	(365,195)
Administrative expenses		**(649,856)**	(609,991)
Research and development costs		**(1,512,160)**	(1,663,667)
Share of results of associates		**–**	(6,616)
Exchange loss		**(1,853)**	(29,129)
Finance costs	6	**(217,888)**	(164,711)
Profit before taxation	7	**4,310,302**	5,996,297
Taxation	9	**(514,417)**	(671,120)
Profit for the year		**3,795,885**	5,325,177
Other comprehensive income (expense):			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income		**(10,479)**	–
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on available-for-sale investments		**–**	436,545
Fair value changes on derivative financial instruments		**4,449**	4,438
Loss reclassified to profit or loss on hedged items		**1,268**	–
Exchange differences arising on translation of foreign operations		**49,796**	(183,432)
Total comprehensive income for the year		**3,840,919**	5,582,728
Profit for the year attributable to:			
Owners of the Company		**3,795,885**	5,324,579
Non-controlling interests		**–**	598
		3,795,885	5,325,177
Total comprehensive income attributable to:			
Owners of the Company		**3,840,919**	5,581,925
Non-controlling interests		**–**	803
		3,840,919	5,582,728
Earnings per share – Basic	11	**RMB3.11**	RMB4.35

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	12	**15,440,039**	13,526,391
Goodwill	13	**164,350**	89,217
Prepaid lease payments	14	**622,362**	538,149
Deposits made for acquisition of property, plant and equipment		**1,085,904**	913,987
Investment properties	15	**14,854**	16,049
Available-for-sale investments	16	**–**	751,923
Equity instruments at fair value through other comprehensive income	16	**178,684**	–
Interests in associates	17	**–**	–
Intangible assets	18	**366,607**	255,839
Loan receivable	19	**–**	19,132
Derivative financial instruments	20	**11,153**	4,438
		17,883,953	16,115,125
Current assets			
Inventories	21	**3,319,480**	3,397,629
Trade and other receivables	22	**4,474,213**	7,154,960
Financial assets at fair value through profit or loss	16	**22,426**	–
Amounts due from related companies	23	**4,991**	1,776
Taxation recoverable		**35,509**	9,346
Pledged bank deposits	24	**2,100**	9,028
Bank balances and cash	24	**4,126,494**	4,034,082
		11,985,213	14,606,821
Current liabilities			
Trade and other payables	25	**4,548,240**	6,369,178
Contract liabilities	25	**8,673**	–
Amounts due to related companies	23	**62,468**	47,017
Taxation payable		**204,880**	331,783
Bank loans	26	**3,492,507**	4,349,365
		8,316,768	11,097,343
Net current assets		**3,668,445**	3,509,478
Total assets less current liabilities		**21,552,398**	19,624,603

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Bank loans	26	**2,427,854**	1,940,549
Government grants	27	**117,779**	87,162
Deferred tax liabilities	28	**71,669**	45,952
Derivative financial instruments	20	**998**	–
		2,618,300	2,073,663
Net assets		**18,934,098**	17,550,940
Capital and reserves			
Share capital	29	**98,906**	99,231
Reserves		**18,835,192**	17,451,709
Total equity		**18,934,098**	17,550,940

The consolidated financial statements on pages 89 to 169 were approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on its behalf by:

Pan Benjamin Zhengmin
Director

Mok Joe Kuen Richard
Director

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2018

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Sub-Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	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 of financial statements of foreign operations	–	–	–	–	–	(183,637)	–	–	–	–	–	(183,637)	205	(183,432)
Fair value changes on available-for-sale investments	–	–	–	–	–	–	436,545	–	–	–	–	436,545	–	436,545
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	4,438	–	4,438	–	4,438
Profit for the year	–	–	–	–	–	–	–	–	–	–	5,324,579	5,324,579	598	5,325,177
Total comprehensive (expense) income for the year	–	–	–	–	–	(183,637)	436,545	–	–	4,438	5,324,579	5,581,925	803	5,582,728
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,663,997)	(1,663,997)	–	(1,663,997)
Shares repurchased	–	–	(512,673)	–	–	–	–	–	–	–	–	(512,673)	–	(512,673)
Shares cancelled	(487)	(512,186)	512,673	–	–	–	–	–	–	–	–	–	–	–
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(43,194)	(43,194)	(26,721)	(69,915)
Transfers	–	–	–	–	–	–	–	–	111,885	–	(111,885)	–	–	–
At 31 December 2017	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 of financial statements of foreign operations	–	–	–	–	–	49,796	–	–	–	–	–	49,796	–	49,796
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	(10,479)	–	–	–	–	(10,479)	–	(10,479)
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	4,449	–	4,449	–	4,449
Loss reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	1,268	–	1,268	–	1,268
Profit for the year	–	–	–	–	–	–	–	–	–	–	3,795,885	3,795,885	–	3,795,885
Total comprehensive income (expense) for the year	–	–	–	–	–	49,796	(10,479)	–	–	5,717	3,795,885	3,840,919	–	3,840,919
Dividend declared	–	–	–	–	–	–	–	–	–	–	(2,179,901)	(2,179,901)	–	(2,179,901)
Shares repurchased	–	–	(277,860)	–	–	–	–	–	–	–	–	(277,860)	–	(277,860)
Shares cancelled	(325)	(198,333)	198,658	–	–	–	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–	244,996	–	(244,996)	–	–	–
At 31 December 2018	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,549	18,934,098	–	18,934,098

The People's Republic of China (the "PRC") statutory reserve comprises the statutory surplus reserve fund and an enterprise expansion fund, which are non-distributable. As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries of the Company are required to maintain these funds. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries of the Company and the allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up the PRC subsidiaries prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries of the Company by means of capitalisation issue.

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

The capital reserve relates to a deemed capital contribution from a shareholder.

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

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	**4,310,302**	5,996,297
Adjustments for:		
Interest income	**(36,840)**	(44,374)
Finance costs	**217,888**	164,711
Depreciation of property, plant and equipment	**1,713,557**	1,295,177
Amortisation of intangible assets	**36,236**	10,942
Release of prepaid lease payments	**12,639**	8,733
Depreciation of investment property	**1,195**	1,194
Loss (gain) on disposal of property, plant and equipment	**773**	(1,215)
Loss on disposal of prepaid lease payments	**5,530**	–
Share of results of associates	**–**	6,616
Amortisation of upfront fee for bank loans	**6,306**	3,587
Amortisation of government grants	**(15,627)**	(5,643)
Written off of other borrowing	**–**	(330)
Loss on disposal of available-for-sale investments	**–**	441
Gain on final settlement of earn-out consideration	**(147,830)**	–
Fair value loss on financial assets at fair value through profit or loss	**118,881**	–
Fair value loss on contingent consideration in respect of acquisition of a subsidiary in previous year	**–**	12,002
Allowance (reversal of allowance) for impairment loss on trade receivables	**16,785**	(3,929)
Net allowance for obsolete inventories	**60,566**	85,482
Impairment losses recognised in respect of property, plant and equipment	**9**	47,994
Impairment losses recognised in respect of goodwill	**3,098**	–
Written off of a loan receivable	**12,931**	–
Impairment loss recognised in respect of interest in an associate	**–**	7,530
Operating cash flows before movements in working capital	**6,316,399**	7,585,215
Decrease (increase) in inventories	**57,399**	(902,748)
Decrease (increase) in trade and other receivables	**2,828,777**	(1,491,036)
(Increase) decrease in amounts due from related companies	**(3,215)**	1,157
(Decrease) increase in trade and other payables	**(1,748,715)**	794,331
Increase (decrease) in amounts due to related companies	**15,451**	(3,688)
Decrease in contract liabilities	**(510)**	–
Cash generated from operations	**7,465,586**	5,983,231
Taxation paid	**(676,286)**	(696,234)
Net cash from operating activities	**6,789,300**	5,286,997

	NOTES	2018 RMB'000	2017 RMB'000
Investing activities			
Proceeds from disposal of financial assets at fair value through profit or loss		**737,374**	–
Government grants received relating to acquisitions of property, plant and equipment		**46,244**	12,765
Interest received		**38,495**	54,241
Proceeds from disposal of property, plant and equipment		**13,365**	15,712
Withdrawal of pledged bank deposits		**12,430**	104,877
Settlement received on earn-out consideration		**5,568**	–
Proceeds from disposal of an available-for-sale investment in prior year		**5,129**	23,419
Proceeds from disposal of prepaid lease land		**4,839**	–
Acquisition of property, plant and equipment		**(2,940,805)**	(3,900,123)
Deposits paid for acquisition of property, plant and equipment		**(1,085,904)**	(913,987)
Acquisition of a business/subsidiary	31, 32	**(155,079)**	(45,279)
Prepaid rentals on prepaid lease payments		**(106,289)**	(212,422)
Acquisition of an equity instrument at fair value through other comprehensive income		**(100,000)**	–
Placement of time deposits with original maturity over three months		**(67,545)**	–
Placement of pledged bank deposits		**(5,502)**	(4,858)
Additions to intangible assets		**(1,406)**	(90,950)
Contingent consideration paid in respect of acquisition of a subsidiary		**–**	(17,979)
Acquisition of available-for-sale investments		**–**	(34,041)
Net cash used in investing activities		**(3,599,086)**	(5,008,625)
Financing activities			
Bank loans raised		**5,071,907**	8,214,159
Repayments of bank loans		**(5,627,102)**	(5,852,006)
Dividend paid		**(2,181,600)**	(1,662,298)
Repurchase of shares	29	**(277,860)**	(512,673)
Interest paid		**(215,695)**	(164,711)
Acquisition of additional interests in subsidiaries		**(16,488)**	(36,567)
Net cash used in financing activities		**(3,246,838)**	(14,096)
Net (decrease) increase in cash and cash equivalents		**(56,624)**	264,276
Cash and cash equivalents at 1 January		**4,034,082**	3,864,386
Effect of foreign exchange rate changes		**81,491**	(94,580)
		4,058,949	4,034,082
Represented by:			
Bank balances and cash		**4,126,494**	4,034,082
Less: Time deposits with original maturity over three months		**(67,545)**	–
Cash and cash equivalents at 31 December		**4,058,949**	4,034,082

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

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

The Group has applied the following new and amendments to IFRSs for the first time in the current year:

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

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

2.1 IFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard, if any, 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. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of dynamic components
- Sales of electromagnetic drives (formerly known as haptic) and precision components
- Sales of Micro Electro – Mechanical Systems ("MEMS") components
- Sales of other products

Information about the Group's performance obligations and accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

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

2.1 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 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	Adjustments RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current liabilities				
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 application of IFRS 15 has had no material impact on the Group's retained profits as at 1 January 2018.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statements of cash flows for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities			
Trade and other payables	**4,548,240**	**8,673**	**4,556,913**
Contract liabilities	**8,673**	**(8,673)**	**–**

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

2.1 IFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Operating activities			
Decrease in trade and other payables	(1,748,715)	(510)	(1,749,225)
Decrease in contract liabilities	(510)	510	–

As at 31 December 2018, an amount of RMB8,673,000 in respect of advances from customers for future purchases to be made by customers was classified as contract liabilities and the amount will remain included in trade and other payables if without the application of IFRS 15.

2.2 IFRS 9 "Financial Instruments"

In the current year, 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".

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

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

2.2 IFRS 9 "Financial Instruments" (continued)

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	*AFS investments RMB'000	*Financial assets at FVTPL RMB'000	*Equity instruments at FVTOCI RMB'000	Investment 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)	(751,923)	665,084	86,839	(407,428)	407,428
Opening balance at 1 January 2018		–	665,084	86,839	29,117	16,633,561

* As defined below

Notes:

(a) Available-for-sale ("AFS") investments

From AFS investments to equity instruments at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments other than AMS AG ("AMS") previously classified as AFS investments. 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 AFS 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 investment revaluation reserve as at 1 January 2018 as 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 fair value through profit or loss ("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 AFS 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.

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

2.2 IFRS 9 "Financial Instruments" (continued)

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

Notes: (continued)

(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 year has had no material effect on the amounts reported and/or disclosures relating to the Group's hedging instruments as set out in these consolidated financial statements.

(c) Impairment under ECL model

In relation to the impairment of financial assets, IFRS 9 requires an ECL model, as opposed to an incurred credit loss model under IAS 39. The ECL model requires an entity to account for ECL and changes in those ECL 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.

Loss allowance for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances, loan receivable, other receivables and amounts due from related companies and are measured on 12-month ECL ("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.

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

2.3 Impacts on opening 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 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)
Non-current assets				
AFS investments	751,923	–	(751,923)	–
Financial assets at FVTPL	–	–	665,084	665,084
Equity instruments at FVTOCI	–	–	86,839	86,839
Current liabilities				
Trade and other payables	6,369,178	(9,183)	–	6,359,995
Contract liabilities	–	9,183	–	9,183

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to IFRSs mentioned below, the management anticipates that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases (i.e. all on balance sheet) by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 will result in changes in classification of these assets. The Group will present right-of-use assets within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB95,080,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

IFRS 16 "Leases" (continued)

In addition, the Group currently considers refundable rental deposits paid of RMB9,434,000 and refundable rental deposits received of RMB3,569,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The management expects that the adoption of IFRS 16 as compared with the current accounting policy would result in increase in the Group's right-of-use assets and related lease liability. The combination of straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. The management has assessed the impact of the application of IFRS 16 and considers that it will not have a material impact on the financial performance and net assets of the Group.

The Group elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulate effect of initial application to opening retained profits without restating the comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

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

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

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. For associates using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments will be made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities and of an associate is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

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 or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

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

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

The revenue of the Group arising from sales of dynamic components, electromagnetic drives and precision 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.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

Freehold land is measured at cost, less any recognised impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives of 20 years and after taking into account of their estimated residual value, using the straight-line method.

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the property lease is generally classified as if the leasehold land is under finance lease.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that at 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (continued)

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI nor designated as FVTOCI are measured at FVTPL.

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

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, loan receivable, pledged bank deposits, bank balances and amounts due from related companies). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

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

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed individually for debtors with significant balances and/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.

(i) Significant increase in credit risk

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk (continued)

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified as AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or not classified as financial assets at FVTPL, loans and receivables, or held-to-maturity investments.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period granted, and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS equity investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

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

Derivative financial instruments

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

Hedge accounting

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

Assessment of hedging relationship and effectiveness (under IFRS 9 since 1 January 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

Assessment of hedging relationship and effectiveness (before application of IFRS 9 on 1 January 2018)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

Cash flow hedges

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

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

Discontinuation of hedge accounting (under IFRS 9 since 1 January 2018)

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

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

Discontinuation of hedge accounting (before application of IFRS 9 on 1 January 2018)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting.

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

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

Internally generated intangible assets – research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets (other than goodwill)

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

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

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

Short-term employee benefits

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowance of inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2018, the carrying amount of inventories was RMB3,319,480,000 (2017: RMB3,397,629,000) and a net allowance of RMB60,566,000 (2017: RMB85,482,000) was recognised during the year ended 31 December 2018.

5. REVENUE AND SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its 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 under IFRS 8 are dynamic components (including acoustic modules (formerly known as miniature speaker modules), acoustic unit (formerly known as receivers and speakers)), electromagnetic drives 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. Revenues from these products is recognised at the point in time when controls of the products has transferred.

The measurement of segment results for the year ended 31 December 2017 have been revised as a result of the change in the way in which information is reported to the CEO in the current year.

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

All sales contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (continued)

Information regarding these segments is presented below.

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

	2018 **RMB'000**	2017 RMB'000
Operating and reportable segments		
Segment revenue – recognised at a point in time		
Dynamic components	**8,674,937**	9,579,669
Electromagnetic drives and precision components	**7,882,120**	10,341,262
MEMS components	**814,438**	847,594
Other products	**759,658**	350,041
Revenue	**18,131,153**	21,118,566
Segment results		
Dynamic components	**3,228,334**	3,908,051
Electromagnetic drives and precision components	**3,240,189**	4,545,008
MEMS components	**216,869**	190,244
Other products	**57,683**	76,624
Total profit for operating and reportable segments	**6,743,075**	8,719,927
Unallocated amounts:		
Interest income	**36,840**	44,374
Other income, gains and losses	**199,716**	71,305
Gain on final settlement of earn-out consideration	**147,830**	–
Fair value loss on financial assets at fair value through profit or loss	**(118,881)**	–
Distribution and selling expenses	**(316,521)**	(365,195)
Administrative expenses	**(649,856)**	(609,991)
Research and development costs	**(1,512,160)**	(1,663,667)
Share of results of associates	**–**	(6,616)
Exchange loss	**(1,853)**	(29,129)
Finance costs	**(217,888)**	(164,711)
Profit before taxation	**4,310,302**	5,996,297

There are no inter-segment sales in either year. No analysis of the Group's assets and liabilities and other information by operating and reportable segments is disclosed as such information is not regularly provided to the CEO for review. Depreciation and amortisation charges related to assets employed by different segments are presented to the CEO for review.

5. REVENUE AND SEGMENT INFORMATION (continued)

Depreciation, amortisation and release of prepaid lease payments included in measure of segment results are as follows:

	2018	2017
	RMB'000	RMB'000
Dynamic components	**753,916**	591,641
Electromagnetic drives and precision components	**402,193**	297,686
MEMS components	**33,251**	33,986
Other products	**147,639**	54,319
	1,336,999	977,632
Unallocated portion	**426,628**	338,414
	1,763,627	1,316,046

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

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

5. REVENUE AND SEGMENT INFORMATION (continued)

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

	2018 RMB'000	2017 RMB'000
Greater China* (country of domicile)	5,739,629	5,735,519
Other foreign countries:		
Other Asian countries	1,783,418	1,628,806
America	10,600,797	13,748,554
Europe	7,309	5,687
	18,131,153	21,118,566

* Greater China comprises 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 are not disclosed. In the opinion of management, such disclosure is harmful to the Group's business.

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB10,778,892,000 (2017: RMB11,951,678,000). No disclosure of the total amount of revenue by each customer and number of customers are disclosed, as in the opinion of the management such disclosure is harmful to the Group's business.

6. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings wholly repayable within five years	217,888	164,711

7. PROFIT BEFORE TAXATION

	2018 RMB'000	2017 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 8)	**16,485**	21,266
Other staff's retirement benefits scheme contributions	**483,266**	534,825
Other staff costs	**3,922,881**	4,514,877
Total staff costs	**4,422,632**	5,070,968
Less: Staff costs included in research and development costs	**(906,782)**	(988,138)
	3,515,850	4,082,830
Depreciation of property, plant and equipment	**1,713,557**	1,295,177
Less: Depreciation included in research and development costs	**(237,065)**	(185,108)
	1,476,492	1,110,069
Allowance for obsolete inventories, included in cost of goods sold (note 21)	**60,566**	85,482
Amortisation of intangible assets	**36,236**	10,942
Amortisation of upfront fee for bank loans	**6,306**	3,587
Auditor's remuneration	**3,148**	2,975
Cost of inventories recognised as expense	**11,327,512**	12,313,157
Cost of raw materials included in research and development costs	**46,047**	97,482
Depreciation of investment property	**1,195**	1,194
Impairment loss recognised in respect of interest in an associate, included in other income, gains and losses (note 17)	**–**	7,530
Written off of a loan receivable (note 19)	**12,931**	–
Impairment losses recognised in respect of goodwill (note 13)	**3,098**	–
Impairment losses recognised in respect of property, plant and equipment, included in other income, gains and losses (note 12)	**9**	47,994
Loss on disposal of property, plant and equipment	**773**	–
Loss on disposal of prepaid lease payments	**5,530**	–
Allowance for impairment loss on trade receivables	**16,785**	–
Operating lease rentals in respect of		
– building premises	**52,312**	40,690
– property, plant and equipment	**10,698**	71,617
Release of prepaid lease payments	**12,639**	8,733
Government grants*	**(135,266)**	(83,238)
Interest income	**(36,840)**	(44,374)
Rental income	**(13,443)**	(7,441)
Net reversal of allowance for impairment loss on trade receivables	**–**	(3,929)
Gain on disposal of property, plant and equipment	**–**	(1,215)
Written off of other borrowing	**–**	(330)

* Included in the amount is RMB15,627,000 (2017: RMB5,643,000) representing amortisation of government grants. The remaining amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the year of recognition.

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

The aggregate Directors' and chief executive's remuneration for the year ended 31 December 2018 amounts to RMB16,485,000 (2017: RMB21,266,000), disclosed pursuant to the applicable Listing Rules and CO, are as follows:

For the year ended 31 December 2018:

	Pan Benjamin Zhengmin ("Mr. Pan") RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,536	2,165	6,701
Performance related bonuses	–	5,814	5,814
Retirement benefits scheme contributions	–	15	15
Total Directors' emoluments	4,536	7,994	12,530

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

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

	Wu Ingrid Chun Yuan ("Ms. Wu") RMB'000	Total RMB'000
Non-executive Director		
Fees	466	466
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	466	466

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

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

For the year ended 31 December 2018: (continued)

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Tan Bian Ee RMB'000	Chang Carmen I-Hua RMB'000 (Note i)	Au Siu Cheung Albert RMB'000 (Note ii)	Kwok Lam Kwong Larry RMB'000 (Note ii)	Total RMB'000
Independent non-executive Directors							
Fees	1,056	698	489	186	579	481	3,489
Other emoluments:							
Salaries and other benefits	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–
Total Directors' emoluments	1,056	698	489	186	579	481	3,489

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

Notes:

(i) Ms. Chang Carmen I-Hua retired on 28 May 2018.

(ii) Mr. Au Siu Cheung Albert and Mr. Kwok Lam Kwong Larry were both appointed as independent non-executive Directors of the Company during the year ended 31 December 2018.

(iii) Mr. Peng Zhiyuan and Mr. Zhang Hongjiang were appointed as independent non-executive Directors of the Company on 1 January 2019. No emoluments were paid to them during the both years ended 31 December 2018 and 31 December 2017.

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

For the year ended 31 December 2017:

	Mr. Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,595	2,212	6,807
Performance related bonuses	–	11,734	11,734
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,595	13,962	18,557

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

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

	Ms. Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	445	445
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	445	445

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

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

For the year ended 31 December 2017: (continued)

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Tan Bian Ee RMB'000	Chang Carmen I-Hua RMB'000	Total RMB'000
Independent non-executive Directors					
Fees	933	599	377	355	2,264
Other emoluments:					
Salaries and other benefits	–	–	–	–	–
Performance related bonuses	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	933	599	377	355	2,264

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

Employees' emoluments

The five highest paid individuals included one (2017: one) Director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2017: four) highest paid individuals are as follows:

	2018 RMB'000	2017 RMB'000
Employees		
– basic salaries and allowances	**6,866**	7,552
– bonus	**22,183**	41,752
– retirement benefits scheme contributions	**70**	70
	29,119	49,374

Note: The bonus is determined based on performance of the employees.

The emoluments were within the following bands:

	Number of employees	
	2018	2017
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**1**	–
HK$9,000,001 to HK$9,500,000	**2**	–
HK$11,500,001 to HK$12,000,000	**–**	1
HK$13,000,001 to HK$13,500,000	**–**	1
HK$14,000,001 to HK$14,500,000	**–**	1
HK$17,000,001 to HK$17,500,000	**–**	1

No other emoluments were paid by the Group to the five highest paid individuals (including Directors of the Company and employees) as an inducement to join or as compensation for loss of office.

9. TAXATION

	2018 RMB'000	2017 RMB'000
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**393,111**	490,160
Other jurisdictions	**133,208**	216,230
Hong Kong Profits Tax	**383**	–
Overprovision of taxation in prior years	**(9,527)**	(33,348)
	517,175	673,042
Deferred tax (see note 28)	**(2,758)**	(1,922)
	514,417	671,120

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

According to a joint circular of Ministry of Finance and the State Taxation Administration of the PRC, Cai Shui 2008 No. 1, the accumulated undistributed profits earned by foreign invested enterprise prior to 1 January 2008 can be exempted from EIT when they are distributed to foreign investor after 2008. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Implementation Regulation. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to the Taxes on Income, the withholding tax rate on dividend paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise and it is considered as the beneficial owner of the dividend, and remains at 10% otherwise.

In addition, certain PRC subsidiaries were officially endorsed as High and New Technology Enterprises ("HNTE") till the dates ranging from 31 October 2020 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 program which is granted based on the fulfilment of carrying out qualifying business activities. This incentive program expired in 2018. Agreement for its extension on similar terms for another 10-year period after expiry has been signed, and is effective from 1 January 2019.

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

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

9. TAXATION (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	4,310,302	5,996,297
Tax at the applicable income tax rate*	1,077,575	1,499,074
Tax effect of income not taxable for tax purpose	(39,438)	(27,906)
Tax effect of expenses not deductible for tax purpose	53,940	125,371
Tax effect of tax holiday	(451,865)	(572,226)
Tax effect of tax losses not recognised	92,394	47,270
Utilisation of tax losses previously not recognised	(10,998)	(33,660)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(194,643)	(326,854)
Overprovision in prior years	(9,527)	(33,348)
Others	(3,021)	(6,601)
Tax charge for the year	514,417	671,120

* The PRC EIT rate of 25% (2017: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

10. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year:		
2017 final dividend of HK$1.70 (2016: HK$1.17) per ordinary share	1,751,456	1,246,964
2018 interim dividend of HK$0.40 (2017: HK$0.40) per ordinary share	428,445	417,033
	2,179,901	1,663,997

Subsequent to the end of the reporting period, a final dividend of HK$1.03 (2017: HK$1.70) per share, has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2018 is based on the profit for the year attributable to owners of the Company of RMB3,795,885,000 (2017: RMB5,324,579,000) and on the weighted average of 1,221,392,000 (2017: 1,224,973,000 shares) number shares in issue during the year.

No diluted earnings per share is presented as there were no potential ordinary shares outstanding during either years.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2017	15,451	1,346,225	1,146,340	782,656	52,694	8,906,415	1,100,092	13,349,873
Currency realignment	(932)	(2,847)	(2,263)	(4,629)	(188)	(19,923)	(2,403)	(33,185)
Additions	23,618	203,154	306,630	226,577	11,272	1,458,964	2,847,920	5,078,135
Disposals	–	(980)	(26,321)	(16)	(2,557)	(32,911)	(848)	(63,633)
Transfer to investment properties	–	(24,899)	–	–	–	–	–	(24,899)
Acquisition of a subsidiary	–	–	6,059	1,142	91	337,394	5,563	350,249
Transfers	–	501,698	39,871	113,409	2,045	2,012,980	(2,670,003)	–
At 31 December 2017	38,137	2,022,351	1,470,316	1,119,139	63,357	12,662,919	1,280,321	18,656,540
Currency realignment	1,195	1,886	2,795	2,483	131	13,850	3,915	26,255
Additions	–	41,954	246,962	132,827	7,842	1,366,674	1,828,817	3,625,076
Disposals	–	–	(8,406)	(2,154)	(3,267)	(38,996)	(6,475)	(59,298)
Transfers	–	154,047	28,774	129,020	1,802	1,069,385	(1,383,028)	–
At 31 December 2018	39,332	2,220,238	1,740,441	1,381,315	69,865	15,073,832	1,723,550	22,248,573
DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	–	219,095	586,478	398,424	24,827	2,627,035	–	3,855,859
Currency realignment	–	(203)	(847)	(2,734)	(54)	(5,344)	–	(9,182)
Provided for the year	–	76,390	164,907	158,570	7,787	887,523	–	1,295,177
Eliminated on disposal	–	(414)	(22,075)	(9)	(2,156)	(24,482)	–	(49,136)
Transfer to investment properties	–	(10,563)	–	–	–	–	–	(10,563)
Impairment losses recognised in profit or loss	–	–	529	–	14	42,803	4,648	47,994
At 31 December 2017	–	284,305	728,992	554,251	30,418	3,527,535	4,648	5,130,149
Currency realignment	–	303	1,312	1,963	74	6,327	–	9,979
Provided for the year	–	99,252	204,255	199,688	9,292	1,201,070	–	1,713,557
Eliminated on disposal	–	–	(5,935)	(2,099)	(2,191)	(34,935)	–	(45,160)
Impairment losses (reversed) recognised in profit or loss	–	–	(121)	–	(1)	131	–	9
At 31 December 2018	–	383,860	928,503	753,803	37,592	4,700,128	4,648	6,808,534
CARRYING VALUES								
At 31 December 2018	39,332	1,836,378	811,938	627,512	32,273	10,373,704	1,718,902	15,440,039
At 31 December 2017	38,137	1,738,046	741,324	564,888	32,939	9,135,384	1,275,673	13,526,391

12. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Group has reviewed the estimated useful life of its property, plant and equipment and has fully impaired certain property, plant and equipment with carrying value of RMB9,000 (2017: RMB47,994,000) net of reversal of impairment of RMB122,000 (2017: nil) due to termination of production on certain products that were not part of the Group's core business and due to replacement of some other machineries by more advanced models as part of the Group's automation plan. Reversal of impairment loss was made, as certain property, plant and equipment which was fully impaired in previous years was put into use during the year.

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

13. GOODWILL

The goodwill acquired in business combination was allocated to each individual subsidiary which management considers represent separate CGUs. At the end of the reporting period, the carrying amount of goodwill had arisen from the acquisition of the following subsidiaries:

	NOTE	**2018** **RMB'000**	2017 RMB'000
北京東微世紀科技有限公司 (Eastmicro Technology (Beijing) Co., Ltd.)*		**–**	1,750
AAC Technologies Japan R&D Center Co., Ltd. ("AAC Japan")		**–**	1,348
Kaleido Technology APS		**8,705**	8,705
WiSpry, Inc.		**77,414**	77,414
深圳市軒盈通電子有限公司 (Shenzhen Xuanyingtong electronics Co., Ltd.)*	31	**78,231**	–
		164,350	89,217

* The English translation is for identification purpose only.

The recoverable amount of the CGU is determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. These calculations use cash flow projections based on latest financial budgets approved by management covering a ten-year period, using an applicable pre-tax discount rate ranging from 13.37% to 16.60% (2017: 8.8%). The cash flows beyond the five-year period are extrapolated using a steady growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss.

During the year, Eastmicro Technology (Beijing) Co., Ltd. has ceased all business operation. Therefore, an impairment loss on goodwill of RMB1,750,000 is recognised in the current year.

Also, during the year, an impairment loss on goodwill of RMB1,348,000 in respect of AAC Japan is recognised due to the poor development of the business in that market.

14. PREPAID LEASE PAYMENTS

The majority amount represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

15. INVESTMENT PROPERTIES

	RMB'000
CARRYING VALUES	
At 1 January 2017	–
Transfer on change of use of property	17,243
Depreciation during the year	(1,194)
At 31 December 2017	**16,049**
Depreciation during the year	**(1,195)**
At 31 December 2018	**14,854**

Note: During the year ended 31 December 2017, the Group changed the use of certain of its property and had leased them out to an independent third party for rental income.

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

(i) AFS investments

	2018 **RMB'000**	2017 RMB'000
Unlisted shares, at cost	–	27,243
Listed shares, at fair value	–	724,680
	–	751,923

As detailed in note 2, the Group's AFS investments as at 31 December 2017 have been reclassified to appropriate categories of financial assets upon adoption of IFRS 9 on 1 January 2018.

(ii) Financial assets at FVTPL

	2018 **RMB'000**	2017 RMB'000
Listed shares – AMS	**22,426**	–

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

(ii) Financial assets at FVTPL (continued)

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 year, 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 year, AMS has agreed with the previous shareholders of Heptagon to 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 year, a certain number of AMS shares were disposed in the market for an aggregate proceed of RMB737,374,000. The realised gain on disposal of these shares was RMB29,265,000 and has been included as part of the loss on changes in fair value of financial assets at FVTPL recognised in the profit or loss during the year.

As at 31 December 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 RMB22,426,000 (31 December 2017: included in AFS investments of RMB665,084,000) and a loss on changes in fair value on the AMS shares of RMB118,881,000 has been recognised in the profit or loss.

(iii) Equity instruments at FVTOCI

	2018	2017
	RMB'000	RMB'000
Unlisted shares	**141,255**	–
Listed shares	**37,429**	–
	178,684	–

Unlisted shares

During the year, 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. As at 31 December 2018, the fair value of the investment determined by market approach was RMB100,000,000.

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 31 December 2018, the fair value of the investment determined by reference to the quoted market bid prices available was RMB37,429,000.

17. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investments in associates, unlisted	–	29,118
Impairment loss recognised in respect of interest in an associate	–	(7,530)
Share of post-acquisition loss and other comprehensive expense	–	(21,588)
	–	–

Details of the Group's principal associates were as follows:

Name of associate	Place of incorporation	Percentage of equity interest 2018 %	2017 %	Principal activity
Vesper Technologies Inc. ("Vesper")	United States of America	–#	16.1	Research and development of MEMS products
Five Dimension Co., Ltd.	Japan	–*	39.1	Deregistered

\# During the year, the shareholders of Vesper have entered into an amended and restated voting agreement and as a result, the Company no longer has an ability to appoint or designate a director to the board of Vesper. The management considers it no longer has significant influence over Vesper and Vesper ceased to be an associate of the Group. Accordingly, the Group's investment in Vesper has been designated as an equity instrument at FVTOCI. The fair value of Vesper at date of reclassification was estimated by the management to be nil, as Vesper was loss making.

* On 24 July 2017, Five Dimension Co., Ltd. had filed a petition for bankruptcy. Therefore, an impairment loss of RMB7,530,000 was recognised to fully write off the investment during the year ended 31 December 2017. On 16 May 2018, Five Dimension Co., Ltd. has completed the process of deregistration.

There were no material interests in associates in aggregate or individually as at 31 December 2017 and therefore the financial information of these associates is not disclosed.

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Customer base RMB'000	Total RMB'000
COST				
At 1 January 2017	179,171	132,851	–	312,022
Currency realignment	(2,279)	3,191	–	912
Addition	73,833	23,859	–	97,692
At 31 December 2017	250,725	159,901	–	410,626
Currency realignment	3,603	6,549	–	10,152
Acquisition of a business	–	–	113,800	113,800
Addition	24,723	–	–	24,723
At 31 December 2018	279,051	166,450	113,800	559,301
AMORTISATION AND IMPAIRMENT				
At 1 January 2017	99,665	45,098	–	144,763
Currency realignment	(11)	(907)	–	(918)
Provided for the year	6,792	4,150	–	10,942
At 31 December 2017	106,446	48,341	–	154,787
Currency realignment	308	1,363	–	1,671
Provided for the year	16,653	12,471	7,112	36,236
At 31 December 2018	123,407	62,175	7,112	192,694
CARRYING VALUE				
At 31 December 2018	155,644	104,275	106,688	366,607
At 31 December 2017	144,279	111,560	–	255,839

Patents represent the Group's patents on designs of small and sophisticated module structures. Development expenditure represents the Group's development cost in MEMS technology and wafer-level glass moulding technology which are used to enhance the Group's current products. Customer base represents Group's customer relationship acquired by the Group as part of a business combination during the year (details set out in note 31).

Amortisation is provided to write off the cost of patents, development expenditure and customer base, using the straight line method, over the estimated useful life ranging from 5 to 20 years.

19. LOAN RECEIVABLE

In prior years, the balance represented a loan receivable from a non-controlling shareholder of a subsidiary bearing interest rate at Singapore Interbank Offered Rate plus 1.0% per annum and had no fixed repayment terms. During the year ended 31 December 2017, the Group acquired the remaining interests in the subsidiary held by the non-controlling shareholder (details set out in note 40 (c)), the balance was therefore reclassified as a loan receivable from a third party.

During the year, the Group has agreed with the former non-controlling shareholder to waive its right to enforce payment of the loan receivable, net of the consideration payable due to the former non-controlling shareholder of RMB6,863,000. As a result, the loan receivable net of the consideration payable of RMB12,931,000 was written off during the year.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 **RMB'000**	2017 RMB'000
Derivatives financial assets – under hedge accounting		
Interest rate swap contracts	**11,153**	4,438
Derivatives financial liabilities – under hedge accounting		
Interest rate swap contracts	**998**	–

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 management considers that the interest rate swap contracts are highly effective hedging instruments and have designated them as cash flow hedging instruments for hedge accounting purpose.

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Net adjustments on cash flow hedges of gain of RMB5,717,000 for the year ended 31 December 2018 (2017: RMB4,438,000) have been recognised in OCI and accumulated in equity. The management expected the accumulated sum is to be released to profit or loss at various dates in the coming maturity periods after the reporting period.

During the year, the Group has further entered into an interest rate swap contract for a further notional amount of US$100,000,000.

Included in borrowings as disclosed in note 26 were bank loans of RMB1,372,639,000 (2017: RMB653,420,000) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period are as follows:

Notional amount	**Maturity**	**Swaps**
US$100,000,000	7 September 2022	From LIBOR* to fixed 1.9%
US$100,000,000	7 September 2022	From LIBOR* to fixed 2.52%

* LIBOR represents London Interbank Offered Rate.

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2018 is Level 2 under the fair value hierarchy (details set out in note 36).

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**804,842**	695,043
Work in progress	**311,861**	338,856
Finished goods	**2,202,777**	2,363,730
	3,319,480	3,397,629

The Group has written off provision for obsolete inventories of RMB18,586,000 (2017: RMB13,627,000) in the current year.

During the year, allowance for obsolete inventories of approximately RMB60,566,000 (2017: RMB85,482,000) has been recognised and included in cost of goods sold.

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**3,172,752**	5,696,394
Bank acceptance and commercial bills	**196,261**	15,539
	3,369,013	5,711,933
Advance payment to suppliers	**–**	45,096
Prepayments	**307,409**	287,411
Value-added tax recoverable	**520,685**	761,907
Other receivables	**246,325**	216,660
Loan receivables and interest*	**30,781**	131,953
	4,474,213	7,154,960

* Loans of RMB30,000,000 (2017: RMB129,157,000) made to certain suppliers of the Group are secured, and carry interest rates at 4.35% (2017: ranging from 4% to 5%) per annum. The amounts are repayable in 1 year.

The following is an analysis of trade receivables and bank acceptance and commercial bills net of allowance by age, presented based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	2018 RMB'000	2017 RMB'000
Age		
0 – 90 days	**3,269,316**	5,300,321
91 – 180 days	**94,939**	320,466
Over 180 days	**4,758**	91,146
	3,369,013	5,711,933

22. TRADE AND OTHER RECEIVABLES (continued)

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

As at 31 December 2017, included in the Group's trade receivables and bank acceptance and commercial bills balance were debtors with aggregate carrying amount of RMB425,097,000 which were past due at reporting date for which the Group had not provided for impairment loss. The following was an aged analysis of the balances which were past due but not impaired:

	2017 RMB'000
Age	
Overdue 0 – 90 days	333,986
Overdue 91 – 180 days	87,706
Overdue over 180 days	3,405
	425,097

Based on historical experience the Group considered the amounts which were past due and which impairment loss had not been provided for to be of good credit quality and they were expected to be recoverable. The Group did not hold any collateral over these balances.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB60,999,000 which are past due as at the reporting date. Included in the past due balances, RMB1,359,000 has been past due 90 days or more and is not considered as in default based on good repayment records for those customers and continuous business with the Group.

The following is a movement in the allowance for bad and doubtful debts account during the year ended 31 December 2017:

	2017 RMB'000
Balance at 1 January	12,925
Currency realignment	(458)
Allowance for bad and doubtful debts	1,335
Reversal of allowance for bad and doubtful debts	(5,264)
Balance at 31 December	8,538

Allowances are recognised based on the Group's historical experience, aging analysis and internal assessment of the recoverability of the debt.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 35.

22. TRADE AND OTHER RECEIVABLES (continued)

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

	2018 RMB'000	2017 RMB'000
US$	134,522	156,555
Euro	211	388

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Amounts due from related companies

Details of the amounts due from related companies, in which close family members of Ms. Wu and Mr. Pan have controlling interests are as follows:

Name of related company	2018 RMB'000	2017 RMB'000
四川茵地樂科技有限公司 (Sichuan Yindile Technology Co., Ltd.)*	2,665	–
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	1,680	1,681
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)* (formerly known as 成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd.))*	584	8
常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.)*	61	53
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	1	34
	4,991	1,776

* The English translation is for identification purpose only.

The above amounts were all trade in nature, unsecured, interest-free repayable on demand and repayable within one year.

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES (continued)

Amounts due to related companies

Details of amounts due to related companies are stated as follows:

Name of related company	2018 RMB'000	2017 RMB'000
常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory)*	46,691	29,857
常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.)*	11,652	13,476
紅光越南塑業有限公司 (Hongguang Viet Nam Plastic Co., Ltd.)*	3,853	1,252
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)* (formerly known as 成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd.))*	271	34
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	1	2,316
四川茵地樂科技有限公司 (Sichuan Yindile Technology Co., Ltd.)*	–	82
	62,468	47,017

* The English translation is for identification purpose only.

The above amounts were trade-related, unsecured, interest-free and are repayable on demand. Certain close family members of Ms. Wu and Mr. Pan have controlling interests in these related companies.

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB2,100,000 (2017: RMB9,028,000) has been pledged to secure credit facilities granted to certain subsidiaries which is expected to be repaid within one year.

As at 31 December 2018, included in bank balances and cash is a balance of time deposits with original maturity over three months of RMB67,545,000 (2017: nil).

The bank balances carry variable interest rates ranging from 0.00% to 2.317% (2017: 0.00% to 1.40%) per annum and fixed interest rates ranging from 1.10% to 2.025% (2017: 1.10% to 1.76%) per annum. The pledged bank deposits carry variable interest rates of 0.30% to 1.75% (2017: 0.30% to 1.75%) per annum.

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS (continued)

The Group's bank balances and cash and pledged bank deposits which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Pledged bank deposits		Bank balances and cash	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**–**	–	**1,096,175**	1,336,726
HK$	**–**	–	**171,824**	205,946
Japanese Yen	**–**	–	**48,538**	34,904
Euro	**–**	–	**20,178**	14,206
Other currencies	**–**	–	**22,839**	18,626

25. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

	2018	2017
	RMB'000	RMB'000
Trade payables	**2,057,992**	3,157,419
Notes payables – guaranteed	**1,161,347**	1,241,003
	3,219,339	4,398,422
Payroll and welfare payables	**546,905**	730,817
Payables for acquisition of property, plant and equipment	**341,675**	571,391
Other payables and accruals	**440,321**	661,436
Contingent consideration payable	**–**	7,112
	4,548,240	6,369,178

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

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

	2018	2017
	RMB'000	RMB'000
Age		
0 – 90 days	**2,593,244**	3,878,630
91 – 180 days	**618,059**	497,328
Over 180 days	**8,036**	22,464
	3,219,339	4,398,422

25. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (continued)

Trade and other payables (continued)

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

	2018 RMB'000	2017 RMB'000
US$	652,488	983,549
Japanese Yen	19,803	53,908
Euro	3,553	1,444

Contract liabilities

	31.12.2018 RMB'000	1.1.2018* RMB'000
Contract liabilities on sales of miniaturised components	8,673	9,183

* The amounts in this column are after the adjustments upon the application of IFRS 15 (details as set out in note 2).

Included in the contract liabilities at 1 January 2018, a balance of RMB3,671,000 was recognised as revenue in the current year.

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

26. BANK LOANS

	2018 RMB'000	2017 RMB'000
Bank loans are repayable as follows:		
Within one year	3,492,507	4,349,365
After one year but within two years	626,660	–
After two years but within five years	1,801,194	1,940,549
	5,920,361	6,289,914
Less: Amount due within one year included in current liabilities	3,492,507	4,349,365
Amount due after one year	2,427,854	1,940,549

26. BANK LOANS (continued)

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

	2018 RMB'000	2017 RMB'000
US$	**737,977**	1,165,052
HK$	**236,636**	–
RMB	**199,994**	–

The variable rate bank loans carry interest rate ranging from 3.19% to 3.74% per annum (31 December 2017: 1.63% to 2.76% per annum). The fixed rate bank loans carry interest rate ranging from 2.90% to 4.75% per annum (31 December 2017: 2.60% to 4.35% per annum). The Company issued guarantees to the banks to secure these borrowings.

27. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB46,244,000 (2017: RMB12,765,000) in aggregate from various PRC government authorities as an incentive for constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets.

During the year, RMB15,627,000 (2017: RMB5,643,000) of the grants have been released to profit or loss.

28. DEFERRED TAX LIABILITIES

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

	Intangible assets RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2017	24,296	23,522	47,818
Credited to profit or loss	(1,922)	–	(1,922)
Currency realignment	56	–	56
At 31 December 2017	**22,430**	**23,522**	**45,952**
Acquisition of a business	**28,450**	**–**	**28,450**
Credited to profit or loss	**(2,758)**	**–**	**(2,758)**
Currency realignment	**25**	**–**	**25**
At 31 December 2018	**48,147**	**23,522**	**71,669**

28. DEFERRED TAX LIABILITIES (continued)

At 31 December 2018, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the management to retain the earnings within these subsidiaries.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB1,121,048,000 (2017: RMB795,464,000) available for offset against future profits. These losses may be carried forward for five years from the year when the losses are incurred. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

29. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2017, 31 December 2017 and 31 December 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	(6,000,000)	(60)
Ordinary shares at 31 December 2017	**1,222,000,000**	**12,220**
Shares repurchased and cancelled	**(4,000,000)**	**(40)**
Ordinary shares at 31 December 2018	**1,218,000,000**	**12,180**

	RMB'000
At 1 January 2017	99,718
Shares repurchased and cancelled	(487)
At 31 December 2017	**99,231**
Shares repurchased and cancelled	**(325)**
At 31 December 2018	**98,906**

During the year, the Company repurchased a total of 6,000,000 issued ordinary shares of the Company in the market for a consideration of HK$314,410,000 (equivalent to approximately RMB277,860,000). Out of these repurchased shares, 4,000,000 ordinary shares were cancelled during the year.

Subsequent to the end of the reporting period, the Company has further repurchased a number of its ordinary shares in the market, details of which are set out in note 42.

30. SHARE AWARD SCHEME

On 23 March 2016, the Company had adopted the AAC Share Award Scheme (the "Scheme") constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the "Trustee"), in which employees may be selected by the Board 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 will be charged to profit or loss over the relevant vesting periods with a corresponding increase in equity.

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

31. ACQUISITION OF A BUSINESS

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	(4,083)
Cash paid at date of acquisition	160,048

Acquisition-related costs amounting to RMB177,000 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 consolidated statement of profit or loss and other comprehensive income.

31. ACQUISITION OF A BUSINESS (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)
	85,900
Net cash outflow on acquisition:	
Total consideration	(164,131)
Consideration payable, included in other payables	4,083
Cash and cash equivalents acquired	4,969
	(155,079)
Goodwill arising on acquisition:	
Purchase consideration	164,131
Less: Fair value of identified net assets acquired	(85,900)
	78,231

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 discount rate of 16.6% and 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 and revenue growth 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.

31. ACQUISITION OF A BUSINESS (continued)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2018 is a profit of RMB23,238,000 attributable to Xuanyingtong. Revenue for the year ended 31 December 2018 includes RMB373,057,000 attributable to Xuanyingtong.

Had the acquisition of Xuanyingtong been completed on 1 January 2018, the total amount of revenue of the Group for the year ended 31 December 2018 would have been RMB18,341,598,000 and the amount of the profit for the year ended 31 December 2018 would have been RMB3,795,030,000. 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 management has 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 of Xuanyingtong.

32. ACQUISITION OF A SUBSIDIARY

Acquisition of 連泰精密科技江蘇有限公司 ("Liantai")

On 31 October 2017, the Group acquired the entire registered capital of Liantai for a consideration of RMB50,554,000.

Assets acquired and liabilities recognised on 31 October 2017 are as follows:

	31.10.2017 RMB'000
Plant and equipment	350,249
Inventories	130
Other receivables	33,901
Amounts due from the shareholder of Liantai	81,858
Trade receivables due from the Group	17,845
Bank balances	5,275
Trade and other payables	(5,272)
Loans and interest due to the Group	(433,432)
Net assets acquired	50,554
Net cash outflow on acquisition:	
Consideration paid	(50,554)
Cash and cash equivalents acquired	5,275
	(45,279)

33. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	65,422	67,482
In the second to fifth year inclusive	29,658	62,096
	95,080	129,578

Operating lease payments represent rental payable by the Group for certain building premises and property, plant and equipments. Leases are negotiated and rentals are fixed for a lease term of 1 to 5 years.

34. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	732,453	627,334
– acquisition of a business	–	164,131

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
AFS investments	–	751,923
Derivative financial instruments	11,153	4,438
Financial assets at FVTPL	22,426	–
Equity instruments at FVTOCI	178,684	–
Loans and receivables (including cash and cash equivalents)	–	10,124,564
Financial assets at amortised cost	7,779,705	–
Financial liabilities		
Derivative financial instruments	998	–
Financial liabilities at amortised cost	10,400,210	12,572,295

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, financial assets at FVTPL, equity instruments at FVTOCI, trade and other receivables, amounts due from (to) related companies, pledged bank deposits, bank balances and cash, trade and other payables and bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

Currency risk – spot rates

With the Group's international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will consider to monitor its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

The Group will not enter into derivative transactions for pure trading or speculative purposes.

The carrying amounts of the Group's and intra-Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**10,254,703**	10,660,118	**9,217,249**	8,519,179
Japanese Yen	**134,431**	387,249	**81,064**	452,270
Euro	**22,109**	17,047	**9,103**	2,555
HK$	**571,364**	597,689	**238,967**	2,085

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% (2017: 5%) increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number (in bracket) below indicates a decrease in profit for the year where the RMB strengthen 5% (2017: 5%) against the relevant currency and vice versa. For a 5% (2017: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

Sensitivity analysis (continued)

	Impact	
	2018	2017
	RMB'000	RMB'000
(Decrease) increase in profit for the year		
US$	**(38,905)**	(80,285)
Japanese Yen	**(2,001)**	2,438
Euro	**(488)**	(543)
HK$	**(12,465)**	(22,335)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and fixed-rate bank loans (details of which are set out in notes 24 and 26). However, since the bank deposits and the majority of the fixed-rate bank loans will mature within one year, the management considers the risk is insignificant to the Group.

The Group is also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans (details of which are set out in notes 24 and 26). In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (details of which are set out in note 20).

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank loans and bank balances at the end of the reporting period was the amount outstanding for the whole year. The sensitivity analysis has excluded certain bank balances and bank loans under cash flow hedges which are not interest sensitive.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would increase/decrease by RMB10,137,000 (2017: increase/ decrease by RMB6,271,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk

The Group is exposed to equity price risk on its investments in listed equity securities at FVTPL/FVTOCI (2017: AFS investments).

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate of 10% is applied in current year.

As at 31 December 2018, if the prices of the respective equity instruments had been 10% higher/lower, the profit for the year ended 31 December 2018 and the investment revaluation reserve as at 31 December 2018 would increase/decrease by RMB2,243,000 and RMB3,743,000, respectively for the Group as a result of the changes in fair value of financial assets at FVTPL and equity instruments at FVTOCI respectively.

As at 31 December 2017, if the prices of the respective equity instruments had been 10% higher/lower, the investment revaluation reserve would increase/decrease by RMB72,468,000 for the Group as a result of the changes in fair value of the AFS investments.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

As at 31 December 2018, the Group has concentration of credit risk on total trade and bills receivables as 69.91% (2017: 78.60%) of the total trade and bills receivables are due from the Group's five largest customers. These five customers are large multi-national corporations and are mobile phone and/or consumer electronic companies. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Upon adoption of IFRS 9 on 1 January 2018, the Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade and bills receivables individually by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In addition, the management is of the opinion that there has no default occurred for trade receivables past due 90 days or more and the balances are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers.

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. The Group's trade and bills receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. The following table provides information about the exposure to credit risk and ECL for trade and bills receivables which are assessed collectively based on provision matrix during the year.

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade and bills receivables				
1–90 days past due	59,900	0.4%	(260)	59,640
91–180 days past due	1,382	10.0%	(138)	1,244
Over 180 days past due	944	87.8%	(829)	115
	62,226		(1,227)	60,999

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	–	4,623	4,623
Impairment losses recognised	1,227	15,558	16,785
Currency realignment	–	32	32
As at 31 December 2018	1,227	20,213	21,440

The Group writes off trade and loan receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

In determining the ECL for other receivables, the management has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

For amounts due from related companies, in order to minimise the credit risk, the management continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In the opinion of the management, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant in accordance with IFRS 9 as at 31 December 2018 and thus no impairment loss was recognised.

The management considers the bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, impairment loss was considered as insignificant.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Group's contractual maturity for its financial liabilities:

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2018							
Non-derivative financial liabilities							
Non-interest bearing	–	626,095	3,853,754	–	–	4,479,849	4,479,849
Variable interest rate	3.5%	–	318,081	371,035	735,380	1,424,496	1,322,827
Fixed interest rate	4.0%	–	3,238,939	422,720	1,134,067	4,795,726	4,597,534
		626,095	7,410,774	793,755	1,869,447	10,700,071	10,400,210
Derivatives – gross settlement							
Interest rate swap contracts							
– inflow		–	(26,895)	(24,682)	(20,537)	(72,114)	(69,432)
– outflow		–	26,727	25,198	21,251	73,176	70,430
		–	(168)	516	714	1,062	998
At 31 December 2017							
Non-derivative financial liabilities							
Non-interest bearing	–	519,792	5,762,589	–	–	6,282,381	6,282,381
Variable interest rate	2.4%	–	950,937	–	1,468,920	2,419,857	2,232,159
Fixed interest rate	4.0%	–	3,471,619	–	752,798	4,224,417	4,057,755
		519,792	10,185,145	–	2,221,718	12,926,655	12,572,295

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant observable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	2018 RMB'000	2017 RMB'000				
Interest rate swap contracts	**11,153 Assets (under hedge accounting)**	4,438 Assets (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter-parties and of the Group as appropriate.	N/A	N/A
AFS investments – Listed shares	**–**	724,680	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI – Listed shares	**37,429**	–	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Listed shares	**22,426**	–	Level 1	Quoted bid prices in an active market.	N/A	N/A

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

Financial assets	Fair value as at 2018 RMB'000	Fair value as at 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant observable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Equity instruments at FVTOCI – Unquoted equity investments	**12,409**	–	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model.	The higher the discount rate, the lower the fair value, and vice versa.
Equity instruments at FVTOCI – Unquoted equity investments	**128,846**	–	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month ("TTM") Price-to-Sales ("P/S") multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount. TTM P/S multiples of selected comparable companies.	The higher the lack of marketability discount, the lower the fair value. The higher the TTM P/S multiples, the higher the fair value.

Financial liabilities	Fair value as at 2018 RMB'000	Fair value as at 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant observable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Interest rate swap contracts	**998 Liabilities (under hedge accounting)**	– Liabilities (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter-parties and of the Group as appropriate.	N/A	N/A

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of level 3 fair value measurements

	Equity instruments at FVTOCI RMB'000
At 31 December 2017	–
Effect on adoption of IFRS 9	27,243
At 1 January 2018 (restated)	27,243
Transfer from interests in associates to equity instruments at FVTOCI (note 17)	–
Purchase made	100,000
Fair value changes on equity instruments at FVTOCI	12,152
Currency realignment	1,860
At 31 December 2018	141,255

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall capital risk management strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with capital. The Group will consider to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

38. RETIREMENT BENEFITS SCHEME

The Group mainly participates in the mandatory pension fund and social insurance schemes for its employees in the PRC, Vietnam and Hong Kong.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's PRC and Vietnam subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC and Vietnam government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

39. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties, all of which are transacted with entities controlled by close family members of substantial shareholders of the Company. The substantial shareholders are also Directors of the Company.

Nature of transactions	**2018**	2017
	RMB'000	RMB'000
Purchase of raw materials	**121,712**	140,144
Sales of raw materials	**1,457**	4,544
Property rentals paid	**24,860**	24,860
Property rentals received	**1,562**	1,562
Acquisition of additional interests in a subsidiary (Note)	**–**	28,000
	US$'000	US$'000
Property rentals paid	**184**	225

Note: During the year ended 31 December 2017, the Group acquired additional interests in a subsidiary for a consideration of RMB28,000,000 paid to related parties, details are set out in note 40 (c).

Emoluments paid to the key management personnel of the Company which represents the executive Directors of the Company and the five highest paid individuals, are set out in note 8.

Balances with related parties are disclosed in note 23.

40. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31 December 2018 and 31 December 2017, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
AAC Acoustic Technologies Inc.*	British Virgin Islands	Registered capital – US$50,000	Investment
AAC Technologies Pte. Ltd.#	Singapore	Shares – SGD500,000	Sale of products, research and development
AAC Technologies Vietnam Co., Ltd. (Note a)#	Vietnam	Registered capital – US$6,500,000	Manufacture and sales of products
香港遠宇電子有限公司 YEC Electronics Limited#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
瑞聲聲學科技有限公司 AAC Acoustic Technologies Limited#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products, investment
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (Note b)#	PRC	Registered capital – US$400,000,000	Investment
瑞泰(江蘇)投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note c)#	PRC	Registered capital – US$250,000,000 (2017: US$100,000,000)	Investment
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (Note d)#	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
瑞聲通訊科技(常州)有限公司 AAC Communication Technologies (Changzhou) Co., Ltd. (Note e)#	PRC	Registered capital – US$168,000,000	Manufacture and sales of products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. (Note f)#	PRC	Registered capital – US$122,800,000	Manufacture and sales of electronic components, research and development
瑞聲精密制造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (Note g)#	PRC	Registered capital – US$276,800,000 (2017: US$116,800,000)	Manufacture and sales of tooling and precision components, research and development
瑞聲光學科技(常州)有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. (Note h)#	PRC	Registered capital – US$120,000,000	Manufacture and sales of electronic components, research and development

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (Note i)#	PRC	Registered capital – US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (Note j)#	PRC	Registered capital – RMB69,000,000	Provision of electroplating service
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (Note k)#	PRC	Registered capital – US$9,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (Note l)#	PRC	Registered capital – US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note m)#	PRC	Registered capital – US$292,000,000 (2017: US$142,000,000)	Manufacture and sales of electronic components, research and development
瑞聲光電科技(蘇州)有限公司 AAC Optronics Technologies (Suzhou) Co., Ltd. (Note n)#	PRC	Registered capital – US$187,000,000	Manufacture and sales of electronic components, research and development
瑞聲開泰(深圳)科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (Note o)#	PRC	Registered capital – US$40,000,000	Sales of products
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (Note p)#	PRC	Registered capital – US$100,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技(南寧)有限公司 AAC Technologies (Nanning) Co., Ltd. (Note q)#	PRC	Registered capital – US$100,000,000	Manufacture and sales of products

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise commencing 20 September 2013 to 19 December 2052.
(b) Wholly-owned foreign enterprise for a term of 30 years commencing 13 November 2012.
(c) Wholly-owned foreign enterprise for a term of 30 years commencing 20 September 2016.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing 28 September 2003.
(e) Wholly-owned foreign enterprise for a term of 20 years commencing 31 December 2008.
(f) Wholly-owned foreign enterprise for a term of 50 years commencing 13 April 2006.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing 8 May 2007.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing 29 July 2013.
(i) Wholly-owned foreign enterprise for a term of 20 years commencing 28 January 2000.
(j) Wholly-owned foreign enterprise for a term of 20 years commencing 11 April 2005.
(k) Wholly-owned foreign enterprise for a term of 20 years commencing 8 November 2006.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing 13 June 2010.
(m) Wholly-owned foreign enterprise for a term of 20 years commencing 24 September 2015.
(n) Wholly-owned foreign enterprise for a term of 35 years commencing 6 April 2004.
(o) Wholly-owned foreign enterprise for a term of 10 years commencing 29 August 2013.
(p) Wholly-owned foreign enterprise for a term of 20 years commencing 12 January 2004.
(q) Wholly-owned foreign enterprise for a term of 20 years commencing 29 November 2017.

Indirectly wholly-owned subsidiary
* Directly wholly-owned subsidiary

The above table lists the subsidiaries of the Company which, in the opinion of the management, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the management, results in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

There were no material non-controlling interest in aggregate or individually as at 31 December 2018 and 31 December 2017.

(c) Change in ownership interest in subsidiaries

During the year ended 31 December 2017, the Group acquired additional interests in AAC New Power Development (Changzhou) Co., Ltd. at consideration of RMB28,000,000, increasing its equity interests to 100%. An amount of RMB15,817,000 (being the proportionate share of the carrying amount of the net assets) had been transferred from non-controlling interests. The difference of RMB12,183,000 between the decrease in the non-controlling interests and the consideration was debited to retained profits.

In addition to the above and during the year ended 31 December 2017, the Group had also acquired additional interests in Mems Technology Pte. Ltd. at consideration of RMB41,915,000, increasing its equity interests from 60% to 100%. The difference of RMB31,011,000 between the decrease in the non-controlling interests and the consideration was debited to retained profits. In prior year, partial consideration of RMB8,567,000 was paid.

During the year ended 31 December 2018, partial consideration of RMB16,488,000 was paid and an amount of RMB6,863,000 was offset against loan receivable (details as set out in note 19). The management expects that remaining consideration of RMB11,676,000 will be paid by March 2019.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans RMB'000	Other borrowing RMB'000	Consideration payable in relation to acquisition of additional interests in subsidiaries RMB'000	Dividend payable RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2017	4,092,428	347	–	2	8,352	4,101,129
Bank loans raised	8,214,159	–	–	–	–	8,214,159
Repayment of bank loans	(5,852,006)	–	–	–	–	(5,852,006)
Foreign exchange translation	(168,254)	(17)	–	–	–	(168,271)
Amortisation of upfront fee for bank loans	3,587	–	–	–	–	3,587
Other borrowing waived	–	(330)	–	–	–	(330)
Acquisition of additional interests in subsidiaries	–	–	69,915	–	–	69,915
Consideration paid	–	–	(36,567)	–	–	(36,567)
Dividend declared	–	–	–	1,663,997	–	1,663,997
Dividend paid	–	–	–	(1,662,298)	–	(1,662,298)
Finance costs	–	–	–	–	164,711	164,711
Interest paid	–	–	–	–	(164,711)	(164,711)
At 31 December 2017 and 1 January 2018	**6,289,914**	**–**	**33,348**	**1,701**	**8,352**	**6,333,315**
Bank loans raised	**5,071,907**	**–**	**–**	**–**	**–**	**5,071,907**
Repayment of bank loans	**(5,627,102)**	**–**	**–**	**–**	**–**	**(5,627,102)**
Foreign exchange translation	**179,336**	**–**	**1,679**	**–**	**–**	**181,015**
Amortisation of upfront fee for bank loans	**6,306**	**–**	**–**	**–**	**–**	**6,306**
Loan receivable offset	**–**	**–**	**(6,863)**	**–**	**–**	**(6,863)**
Consideration paid	**–**	**–**	**(16,488)**	**–**	**–**	**(16,488)**
Dividend declared	**–**	**–**	**–**	**2,179,901**	**–**	**2,179,901**
Dividend paid	**–**	**–**	**–**	**(2,181,600)**	**–**	**(2,181,600)**
Finance costs	**–**	**–**	**–**	**–**	**217,888**	**217,888**
Interest paid	**–**	**–**	**–**	**–**	**(215,695)**	**(215,695)**
At 31 December 2018	**5,920,361**	**–**	**11,676**	**2**	**10,545**	**5,942,584**

Consideration payable in relation to acquisition of additional interests in subsidiaries, dividend payable and interest payable are included in other payables and accruals in note 25.

42. EVENTS AFTER REPORTING PERIOD

Subsequent to 31 December 2018, the Company further repurchased a total of 3,500,000 of issued ordinary shares of the Company in the market for a total consideration of approximately HK$152,153,000 (equivalent to approximately RMB130,030,000). Subsequent to 31 December 2018 and up to the date of issuance of these consolidated financial statements, 5,500,000 of the repurchased shares have been cancelled.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2018 RMB'000	2017 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,867
Current assets			
Other receivables		**5,621**	2,228
Amounts due from subsidiaries		**483,856**	959,542
Bank balances and cash		**155,866**	180,537
		645,343	1,142,307
Current liabilities			
Other payables		**(1,519)**	(2,826)
Net current assets		**643,824**	1,139,481
Total assets less current liabilities		**1,815,681**	2,311,348
Capital and reserves			
Share capital	29	**98,906**	99,231
Reserves		**1,716,775**	2,212,117
		1,815,681	2,311,348

Movement of reserves

	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	746,957	–	33,428	1,389,565	2,169,950
Profit and total comprehensive income for the year	–	–	–	2,218,350	2,218,350
Dividend declared	–	–	–	(1,663,997)	(1,663,997)
Shares cancelled	(512,186)	–	–	–	(512,186)
At 31 December 2017	**234,771**	**–**	**33,428**	**1,943,918**	**2,212,117**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**1,962,094**	**1,962,094**
Dividend declared	**–**	**–**	**–**	**(2,179,901)**	**(2,179,901)**
Shares repurchased	**–**	**(277,860)**	**–**	**–**	**(277,860)**
Shares cancelled	**(198,333)**	**198,658**	**–**	**–**	**325**
At 31 December 2018	**36,438**	**(79,202)**	**33,428**	**1,726,111**	**1,716,775**

5-Year Financial Summary

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Revenue	8,879,300	11,738,866	15,506,828	21,118,566	**18,131,153**
Reported profit before taxation	2,580,567	3,435,273	4,632,990	5,996,297	**4,310,302**
Recurring profit before taxation	2,580,567	3,435,273	4,632,990	5,996,297	**4,281,353**
Taxation	(270,166)	(325,079)	(608,555)	(671,120)	**(514,417)**
Reported profit	2,310,401	3,110,194	4,024,435	5,325,177	**3,795,885**
Attributable to:					
Owners of the Company					
– reported	2,317,695	3,106,904	4,025,665	5,324,579	**3,795,885**
– recurring	2,317,695	3,106,904	4,025,665	5,324,579	**3,766,936**
Non-controlling interests	(7,294)	3,290	(1,230)	598	**–**
	2,310,401	3,110,194	4,024,435	5,325,177	**3,795,885**
Reported Basic EPS	RMB1.89	RMB2.53	RMB3.28	RMB4.35	**RMB3.11**
Adjusted recurring Basic EPS	RMB1.89	RMB2.53	RMB3.28	RMB4.35	**RMB3.08**
Full year dividend	HK$0.96	HK$1.20	HK$1.47	HK$2.10	**HK$1.43**
Dividend payout ratio	40%	40%	40%	40%	**40%**

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	13,279,149	16,420,201	24,257,204	30,721,946	**29,869,166**
Total liabilities	(4,087,506)	(5,066,118)	(10,042,407)	(13,171,006)	**(10,935,068)**
Net assets	9,191,643	11,354,083	14,214,797	17,550,940	**18,934,098**
Attributable to owners of the Company	9,138,095	11,306,942	14,188,879	17,550,940	**18,934,098**
Non-controlling interests	53,548	47,141	25,918	–	**–**
	9,191,643	11,354,083	14,214,797	17,550,940	**18,934,098**

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 31 December 2018, the market capitalization of listed shares of the Company was approximately HK$55.3 billion or US$7.0 billion based on the total number of 1,218,000,000 issued shares of the Company and the closing price of HK$45.45 per share.

The daily average number of traded shares was approximately 7.0 million shares over an approximate free float of 722.6 million shares in 2018. The average closing price was HK$104.13 per share, an decrease of 8.4% when compared with the average of 2017. The highest closing price was HK$160.6 per share on 12 March 2018 and the lowest was HK$44.4 per share on 12 December 2018.

1-year relative performance of the Company vs Hang Seng Index and Hang Seng IT Hardware Index from 1 January to 31 December 2018 is set out below:

Base: 31 December 2017 closing = 1.0
Source: Bloomberg

In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial period ended 31 December 2018 and has continued to maintain the public float as at the date of this annual report.

KEY DATES FOR SHAREHOLDERS

14 May 2018	2018 First Quarter Results Announcement
28 May 2018	2018 AGM
22 August 2018	2018 Interim Results Announcement
27 September 2018	Payment of 2018 Interim Dividend
8 November 2018	2018 Third Quarter Results Announcement
22 March 2019	2018 Annual Results Announcement
15 May 2019	2019 First Quarter Results Announcement
21–24 May 2019	Book Closure Period for AGM
24 May 2019	2019 AGM
5 June 2019	Ex-Dividend Date
10–12 June 2019	Book Closure Period for Final Dividend
26 June 2019	Payment of 2018 Final Dividend

Any changes to these dates in 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 and on the designated website of Hong Kong Exchange and Clearing Limited at www.hkexnews.hk. The registered shareholders who registered directly with Hong Kong branch share registrar and transfer office, Computershare 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 annual report or via e-mail (aac.ecom@computershare.com.hk).

CONTACT INVESTOR RELATIONS

Address: Unit 1605–7, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong
Tel: +852 3470–0060
Fax: +852 3470–0103
Email: aac2018@aactechnologies.com

Official IR wechat group:

Glossary

Abbreviations	Meanings
General	
AAC/AAC Technologies/the Company	AAC Technologies Holdings Inc.
AAC U.S.	American Audio Component Inc.
ACM	Association for Computing Machinery
AFS	Available-for-sale
AGM	Annual General Meeting
Articles	The articles of association of the Company
Board	The board of directors of the Company
CAPEX	Capital expenditure
CCASS	Central Clearing and Settlement System
CEO	Chief Executive Officer
CG Code	Corporate Governance Code
CGU	Cash-generating units
China/PRC	People's Republic of China
Code Provision(s)	Code Provisions of the CG Code
Committees	Committees of the Board
Companies Ordinance/CO	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSC	Critical Security Control
Deloitte	Messrs. Deloitte Touche Tohmatsu
Director(s)	The director(s) of the Company
EGM	Extraordinary General Meeting
EIT Law	Law of the PRC on Enterprise Income Tax
EBITDA	Profit (Earnings) before interest, tax, depreciation and amortization
EPS	Earning per share
ERA	Enterprise Risk Assessment
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
HKICPA	Hong Kong Institute of Certified Public Accountants
HKMA	Hong Kong Monetary Authority
HKSAs	Hong Kong Standards on Auditing
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HNTE	High-New Technology Enterprises
IEEE	Institute of Electric and Electronic Engineers
IFRSs	International Financial Reporting Standards
IPs	Intellectual Properties
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuer under Appendix 10 of the Listing Rules

Abbreviations	Meanings
OCI	Other comprehensive income
OEMs	Original shares in the capital of the Company
Ordinary Shares	Ordinary shares in the capital of the Company
PPE	Property, plant and equipment
RMB	Renminbi, the lawful currency of PRC
ROA	Return on average total assets
ROE	Return on average equity
SDGs	Sustainable Development Goals
SFO	Securities and Futures Ordinance
Share Award Scheme/AAC Share Award Scheme/Scheme	The Employee's Share Award Scheme adopted by the Board on 23 March 2016
Shareholders	The shareholders of the Company
Sino	China
Stock Exchange	The Stock Exchange of Hong Kong Limited
the Code	HKICPA's Code of Ethics for Professional Accountants
The Group	AAC Technologies Holdings Inc. and its subsidiaries
Trustee	Bank of Communications Trustee Limited, an independent trustee appointed by the Company for managing the Share Award Scheme
US	United States of America
USD/US$	US Dollars, the lawful currency of United States
Industry	
3D	Three-dimensional
5G	5th Generation
12m ECL	12-month ECL
AR	Augmented Reality
ASP	Average selling price
CoBit	Control Objectives for Information and related Technology
ECL	Expected credit losses
EICC	Electronic Industry Citizenship Coalition
IDC	International Data Corporation
IoE	Internet of Everything
IoT	Internet of Things
LDS	Laser direct structuring
MEMS	Micro Electro-Mechanical Systems
MIMO	Multi-input Multi-output
P/S	Price-to-Sales
R&D	Research & Development
RF	Radio Frequency
SLS	Super Linear Structure
TTL	Total track length
TTM	Trailing-twelve-month
VR	Virtual Reality
WLG	Wafer-level glass
Xuanyingtong	深圳市軒盈通電子有限公司 (XuanYingTong Electronics*)

* for identification purposes only