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

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

Interim Report 2019

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

www.aactechnologies.com

The English text of this interim report shall prevail over the Chinese text in case of any inconsistency.

This interim report is printed on environmentally friendly paper

PRINTED WITH SOY INK™

Contents

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
Mr. Zhang Hongjiang (Appointed on 1 January 2019)
Mr. Poon Chung Yin Joseph
Mr. Kwok Lam Kwong Larry
Mr. Peng Zhiyuan (Appointed on 1 January 2019)
Mr. Tan Bian Ee (Retired on 24 May 2019)

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
Mr. Peng Zhiyuan

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)
Mr. Au Siu Cheung Albert
Mr. Zhang Hongjiang

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
Wan Chai, 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

Financial Highlights

Summary of Past 5-Year Operating Financial Data

	1H 2015 RMB'000	1H 2016 RMB'000	1H 2017 RMB'000	1H 2018 RMB'000	**1H 2019 RMB'000**	1H 2019 vs 1H 2018 YoY Increase/ (Decrease)
Revenue	4,706,784	5,563,560	8,644,272	8,424,381	**7,567,523**	(10.2%)
Depreciation and Amortisation	330,919	434,222	604,505	840,606	**1,040,595**	23.8%
Finance costs	8,199	19,988	67,727	102,671	**114,360**	11.4%
Net profit	1,245,605	1,354,779	2,126,824	1,778,421	**769,809**	(56.7%)
EBITDA	1,710,325	1,968,480	3,113,318	2,939,981	**2,042,777**	(30.5%)
CAPEX	(1,055,362)	(2,139,961)	(2,329,030)	(2,270,951)	**(1,319,040)**	(41.9%)
Taxation paid	(120,315)	(174,282)	(495,306)	(271,611)	**(142,091)**	(47.7%)
Changes in working capital	171,005	42,021	(255,431)	1,227,539	**(153,122)**	(112.5%)
Free cash flow	705,653	(303,742)	33,551	1,624,958	**428,524**	(73.6%)
Gross margin	41.5%	41.1%	41.0%	36.7%	**27.5%**	(9.2ppts)
R&D expenses to Revenue	8.0%	8.8%	8.4%	8.6%	**11.0%**	2.4ppts
Annualized ROA	18.3%	15.8%	17.4%	12.0%	**5.2%**	(6.8ppts)
Annualized ROE	26.5%	23.5%	29.2%	20.2%	**8.3%**	(11.9ppts)
Per capita output (Revenue/Employees)	118	128	144	221	**210**	(4.9%)
Net gearing ratio	Net cash	5.6%	6.8%	9.9%	**9.8%**	(0.1ppt)
Current ratio	1.60	1.48	1.28	1.30	**1.61**	31.0ppts
CAPEX/EBITDA	61.7%	108.7%	74.8%	77.2%	**64.6%**	(12.6ppts)

Financial Highlights

5-Year Financial Summary

	Six months ended 30 June				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
RESULTS					
Revenue	4,706,784	5,563,560	8,644,272	8,424,381	**7,567,523**
Reported profit before taxation	1,371,207	1,514,270	2,441,086	1,996,704	**887,822**
Recurring profit before taxation	1,371,207	1,514,270	2,441,086	1,941,930	**872,643**
Taxation	(127,850)	(159,712)	(313,958)	(218,283)	**(118,013)**
Reported profit	1,243,357	1,354,558	2,127,128	1,778,421	**769,809**
Attributable to:					
Owners of the Company					
– reported	1,245,605	1,354,779	2,126,824	1,778,421	**769,809**
– recurring	1,245,605	1,354,779	2,126,824	1,723,647	**754,630**
Non-controlling interests	(2,248)	(221)	304	–	**–**
	1,243,357	1,354,558	2,127,128	1,778,421	**769,809**
Reported Basic EPS	RMB1.01	RMB1.10	RMB1.73	RMB1.46	**RMB0.64**
Adjusted recurring Basic EPS	RMB1.01	RMB1.10	RMB1.73	RMB1.41	**RMB0.62**
Interim dividend	HK$0.25	HK$0.30	HK$0.40	HK$0.40	**HK$0.40**

	As at 30 June				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	13,912,680	17,772,772	24,559,362	28,641,023	**28,931,588**
Total liabilities	(4,207,902)	(6,041,520)	(9,574,073)	(11,025,175)	**(10,646,367)**
Net assets	9,704,778	11,731,252	14,985,289	17,615,848	**18,285,221**
Attributable to owners of the Company	9,663,216	11,705,272	14,975,008	17,615,848	**18,285,221**
Non-controlling interests	41,562	25,980	10,281	–	**–**
	9,704,778	11,731,252	14,985,289	17,615,848	**18,285,221**

Interim Review

For the six months ended 30 June 2019, total revenue of the Group decreased 10% year-on-year to RMB7.57 billion. Revenue, for the three months ended 30 June 2019 (“second quarter”), showed an increase of 1% year-on-year to RMB3.82 billion, exhibiting a sequential improvement and mitigating the decline in the first quarter. Gross profit margin decreased by 9.2 percentage points from the same period of last year to 27.5%, as some new design solutions were in their early cycle and still gaining market share and yet to reach optimal scale. Net profit for the first half of 2019 declined by 57% year-on-year to RMB770 million, mainly due to reduced gross profit and increased research and development (“R&D”) costs.

The Board of Directors has declared an interim dividend of HK$0.40 per share for 2019 (2018: HK$0.40), to pay in cash on 27 September 2019, to Shareholders whose names appear in the register of members on 18 September 2019.

Given that the Group is always committed to prudent financial management and strong operating cash flow with healthy gearing, it is expected that the Group would be able to control to enhance Shareholders’ return via dividends and share buybacks, despite an uncertain global economic outlook. During the period, the Group has spent a total of about HK$1.56 billion for paying dividends and repurchasing shares.

The Group continued to make satisfactory progress on business development and R&D in the second quarter. For acoustics business, the entry-level super linear structure (“SLS”) products have successfully penetrated into mid-tier Android models; for optical business, average monthly shipments have doubled year-on-year to almost 30 million units; for electromagnetic drives business, the stepper motor module has started mass production and shipment to mainstream Android customers, as a new revenue driver for the Group. As for patents, as of 30 June 2019, the Group owned 3,956 patents, an increase by 18% from 31 December 2018.

The Group has reinforced the optical business as one of the key and strategic growth drivers for this year, amid its strong growth potential and economies of scale. In addition to expanding the production capacities of high-spec plastic lenses and hybrid optical modules, the Group has started the development plan of a new industrial park for smart manufacturing in China, accelerating the technical development and mass production of wafer-level glass (“WLG”) lenses. The Group is proactively developing new imaging lens modules and building a new factory in Nanning, China for these innovative high-end periscope lens modules. Furthermore, the Imaging R&D Center in Finland will focus on developing innovative optical technologies and new applications. Our capabilities in imaging algorithm, high-spec cameras and periscope designs should enable the Group to be a leading integrated total solution provider of the optical business supply chain.

Meanwhile, the Group has presented various technological innovations and upgraded products in each business segment in the first half of 2019. In our annual technology seminar, the Group debuted a series of leading solutions including classic debuted SLS, high-end periscope lens solutions, upgraded haptic motors, and customized MEMS microphones; including TWS headphones, AR spectacles and automobile audio systems. In the Mobile World Congress, ahead of the 5G era, the Group unleashed six different 5G antenna solutions for mobile phones and base stations. In the Consumer Electronics Show Asia, the Group joined Honda to present a brand-new on-board directional sound system for automobile. The Group believes that these technology innovations and solutions would be the new drivers for revenue and sustainable growth.

PERFORMANCE OF BUSINESS SEGMENTS

Acoustics Business

Affected by reduced global smartphone shipments, and extended cycles for specification innovations and upgrades, both ASP and volume were under pressure in the first half of 2019. Acoustics business revenue and gross profit margin in the first half of 2019 fell year-on-year by 15% and 7.4 percentage points respectively, to RMB3.65 billion and 30.1%.

Interim Review

During the period, our SLS product platform continued to gain market share in Android smartphones. SLS accounted for 50% of total Android acoustics modules shipments in the second quarter, an increase from 35% in the first quarter. As scheduled, the "Entry level" SLS products' penetration in the high-end has been extended to the mid-tier segment. The Group has planned to gradually replace "Entry level" with an "Upgraded version" in the second half of 2019. Through this proprietary SLS technology platform, the Group is committed to deliver further sustainable specification upgrade for more precise and richer acoustic performance. Furthermore, newly launched "Classic Version", an effective technical breakthrough achieving a 30%-higher diaphragm amplitude than the "Upgraded Version", is already well received by the customers. Applications in customers' new products expected in the second half of 2019 should enhance the differentiation of users' experience and accelerate the specification upgrade adoption.

Overall, the Group foresees an uptrend for both shipments and ASP of SLS products, and a potential improvement of gross margin of acoustics business in the second half of 2019.

Optics Business

Riding on improvements in capacity utilization and market penetration, optical business revenue in the first half of 2019 increased by 73% year-on-year to RMB417 million. The Group has successfully entered the plastic lens supply chain, and become one of the top three global suppliers. Average monthly shipments in the second quarter of 2019 almost doubled year-on-year, to almost 30 million units. The Group targets the average monthly shipments to further double to 60 million units and profitability to improve by the year-end.

The Group is committed to the strategy of delivering higher specification plastic lens. Currently, the Group has successfully penetrated into more popular models of Android customers. Leveraging on the Group's proprietary moulding and full automation capabilities, the Group is targeting at higher-spec orders to improve capacity utilization and optimize production efficiency. By year-end and upon customers' recognition, the Group has planned for the production of its high-end hybrid designs with our unique WLG lens, and the acceleration of mass production.

Electromagnetic Drives and Precision Mechanics

Revenue in the first half of 2019 decreased by 12% year-on-year to RMB3.03 billion. Precision mechanics showed a significant revenue growth while that of electromagnetic drives declined. Despite the decline in ASP and shipment volume of major electromagnetic drives products, gross profit margin level has been maintained. The Group achieved targeted operational efficiency, attributed to its core proprietary technologies and competitive advantage of full automation. The precision mechanics business has successfully penetrated into more high-end Android models. This industry has a lower gross profit margin, weighing on the overall gross profit margin of this business segment, down 9.9 percentage points year-on-year to 29.7% in the first half of 2019.

As a key player in electromagnetic drives products, the Group expects the x-axis haptic motors to further penetrate into more Android models in the second half of the year. Shipments next year are expected to see strong growth from approx. 20 million this year. In addition, the stepper motor module business has been rolled out with commencement of mass production. For precision mechanics, the Group's metal frame products have penetrated into more mainstream high-end Android models in the first half of 2019. In the second half of the year, the Group aims to win more orders, increasing capacity utilization and enhancing financial performance of this segment.

The Group has accumulated valuable knowledge in electromagnetic technology over the years which would be a competitive advantage in its efforts to seize new market opportunities and expand market share.

MEMS Components

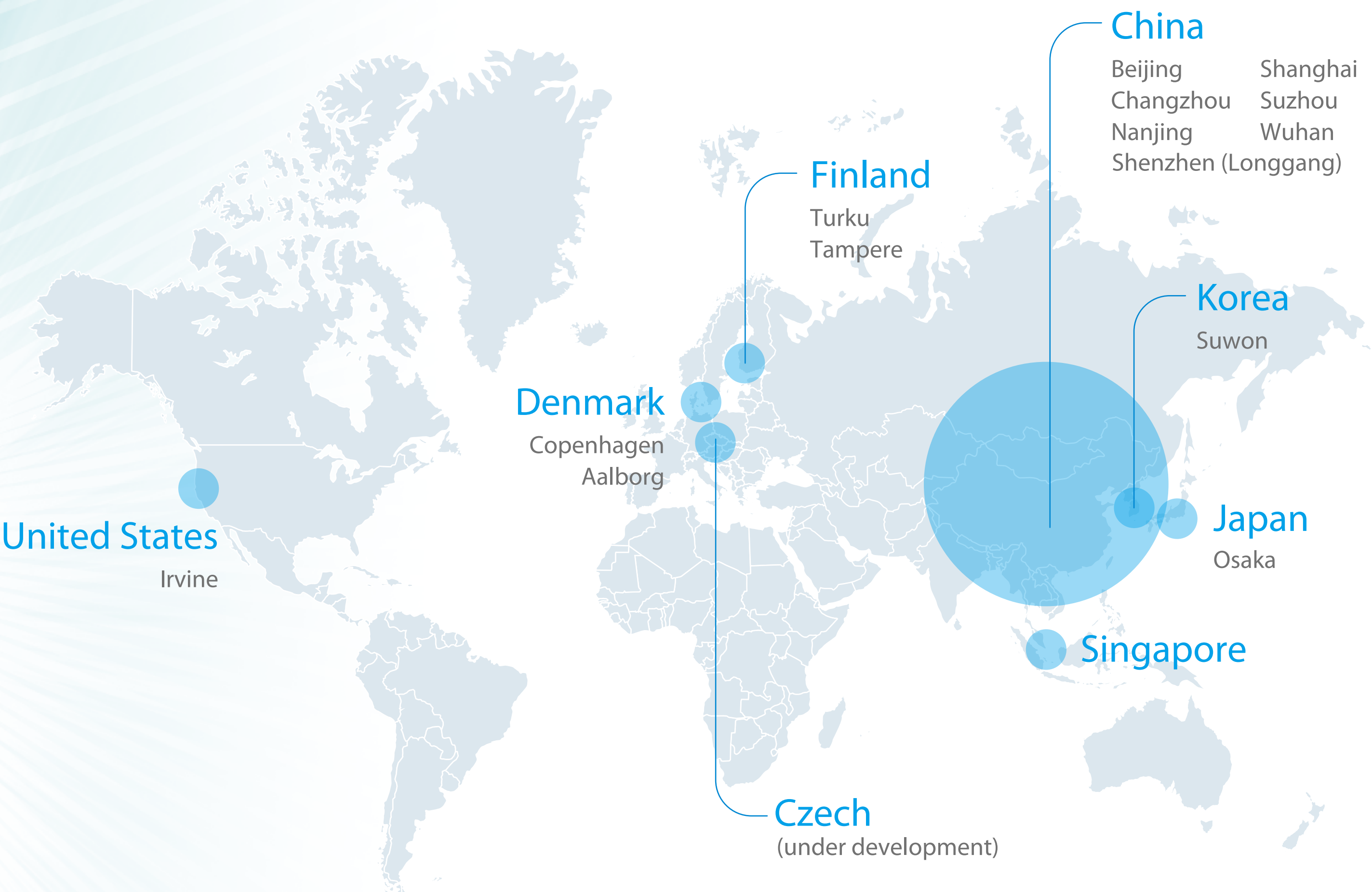
In the first half of 2019, revenue from this Micro-electromechanical systems ("MEMS") microphones business segment increased by 11% year-on-year to RMB380 million, and gross profit margin increased by 4.1 percentage points year-on-year to 23.5%. MEMS microphones shipments and unit prices both showed an uptrend in the second quarter. In our efforts to improve gross profit margin, the Group has been working to increase the proportion of in-house MEMS dies and digital ASIC chips in our MEMS microphones. The Group would strive for and promote more upgrades in MEMS microphones' technology, and broaden its application to new devices such as those in the smart home market.

PROSPECTS

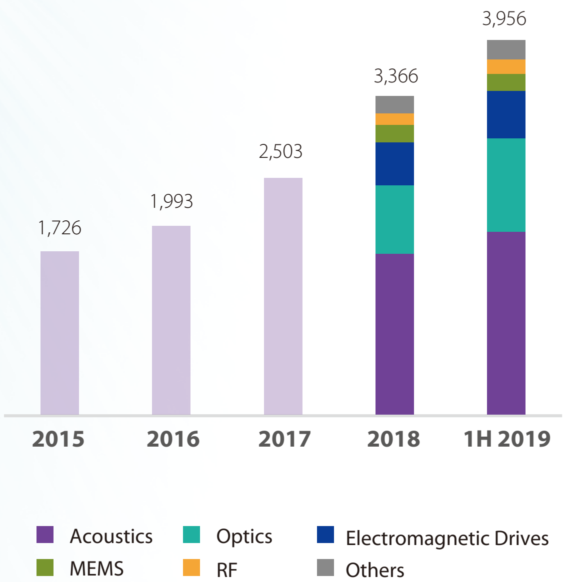
The global economy, as well as the consumer electronics market, are facing strong headwinds and uncertainties. Smartphone shipments in the first half of 2019 continued to decline, although such decline has moderated in the second quarter compared with the first quarter. Upon the arrival of 5G era and smartphone upgrades, our technology leadership and competitive advantage will be reaffirmed. The Group is confident that our proprietary technology product platforms would help us grow our business from the new smartphones. With an optimal product mix and enhanced production efficiency, we are well placed to improve operating margins over time, and maximize the returns to our Shareholders.

Global Presence

R&D Centers



Patents by Segments



Patents

3,956

Overseas: 930

Patent Applications

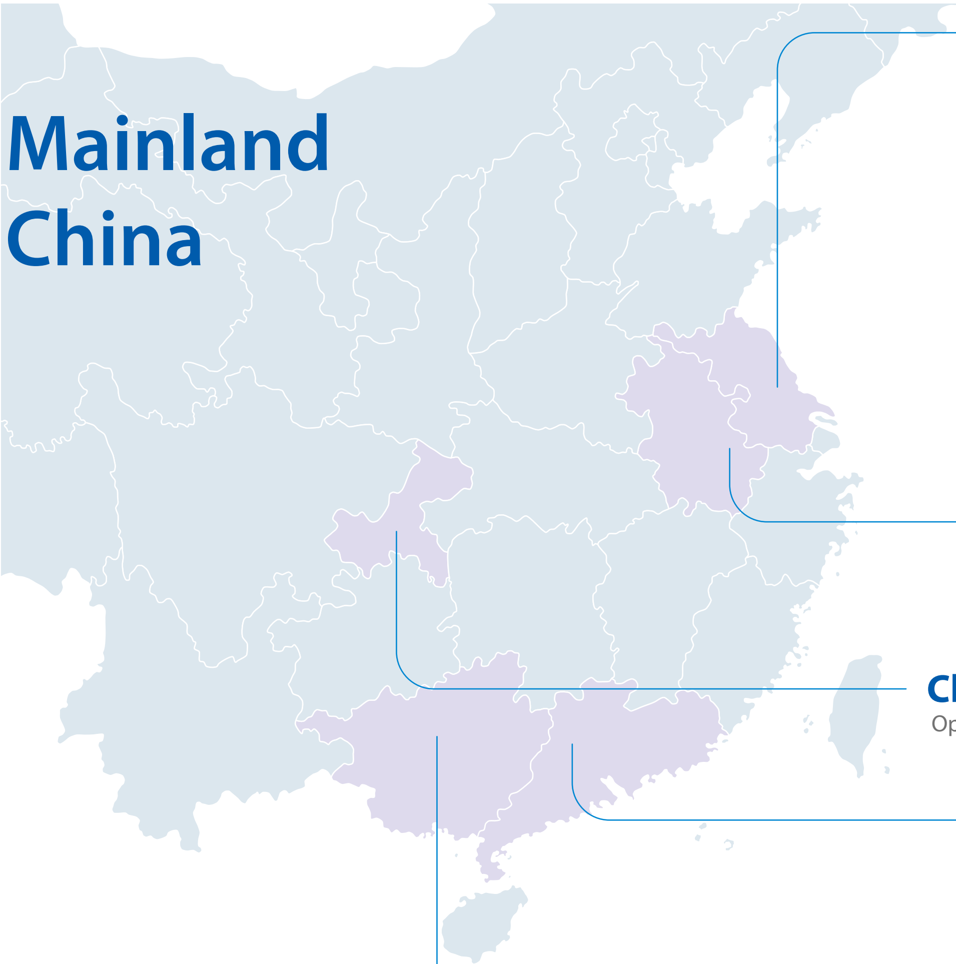
2,917

Overseas: 835

Global Presence

Diversified Manufacturing Bases

Mainland China



Jiangsu

Changzhou

Acoustics
Electromagnetic Drives
Optics
Precision Mechanics

Shuyang

Acoustics
Electromagnetic Drives
Precision Mechanics

Suzhou

Optics

Anhui

Ma'anshan

Precision Components

Chongqing (under development)

Optics

Guangdong

Shenzhen (Longgang)

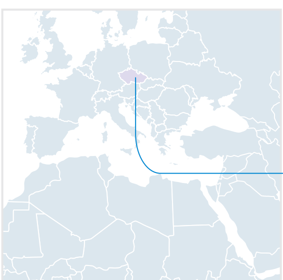
MEMS
Optics

Guangxi

Nanning

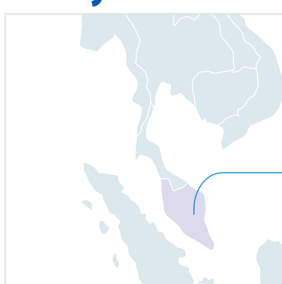
Acoustics
Optics
Precision Mechanics

Czech



Kozomín (under development)
Optics Moulding

Malaysia

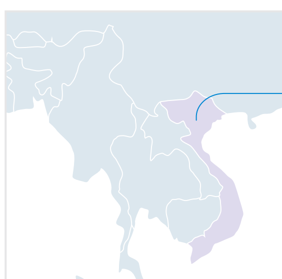


Malaysia (under development)
New Material and Moulding

Philippines

General Trias, Cavite
Electromagnetic Drives

Vietnam



Bac Ninh

Acoustics

Vinh Phuc

Ba Thien IP Industrial Park:
1st phase to be completed in 2020

Financial Review

Revenue

1H 2019 Group revenue declined year-on-year by 10%, to RMB7.6 billion. Owing to factors discussed under "Interim Review" above, revenue from the Acoustics and Electromagnetic Drives & Precision Mechanics decreased by RMB656 million and RMB408 million respectively, whilst Optics revenue saw an encouraging increase of RMB176 million, compared with 1H 2018.

Gross Profit and Gross Profit Margin

1H 2019 gross profit was RMB2.1 billion, representing a decrease by 33%, from the gross profit of RMB3.1 billion in 1H 2018. The drop in gross profit was primarily due to the reduction in revenue and gross profit margin. Gross profit margin decreased to 27.5% in 1H 2019 as compared with 36.7% in 1H 2018. 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 1H 2019 were RMB291 million, 5% higher, compared with RMB278 million in 1H 2018.

Distribution and Selling Expenses

Distribution and selling expenses of RMB121 million in 1H 2019, along with the decline in revenue, dropped by 13%, compared with RMB139 million in 1H 2018. Amongst the drop, there was a corresponding decline in human resource payroll expenses.

Research and Development Expenses

Research and development ("R&D") expenses in 1H 2019 were RMB831 million, 15% higher than RMB723 million in 1H 2018. The increase was primarily attributable to the higher R&D related to optics business, in line with the Group's plan for a significant growth in production and shipments in the next 12 months and optics as a key growth driver in the future.

Finance Costs

Finance costs in 1H 2019 amounted to RMB114 million, representing an increase of 11% compared with RMB103 million in 1H 2018. Such increase in finance costs was due to the rise of market interest rates in 1H 2019 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 30 June 2019 is 61% of total bank loans (31 December 2018: 41%).

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses in 1H 2019 amounted to RMB118 million, representing a decrease of 46% from RMB218 million in 1H 2018. While the effective tax rate have increased 2.4 percentage points compared with that of 1H 2018, the increase was temporary due to the different taxation status of our Chinese operating subsidiaries.

Net Profit and Net Profit Margin

Reported net profit for 1H 2019 was RMB0.8 billion, a decline by 57% compared with RMB1.8 billion in 1H 2018. The decline was due to decline of revenue and gross profit margin, together with higher research and development costs incurred during the period contributed to the adverse 10.9 percentage points decrease in net profit margin to 10.2%.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2019	2018
	RMB million	RMB million
Net cash from operating activities	**1,785.0**	3,810.2
Net cash used in investing activities	**(1,218.8)**	(2,458.0)
Net cash used in financing activities	**(1,452.0)**	(2,228.0)

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB1,785.0 million for 1H 2019 (1H 2018: RMB3,810.2 million).

i. Trade Receivables and Payables

As at 30 June 2019, turnover days of trade receivables decreased by 11 days to 80 days as compared to 31 December 2018. Trade receivables decreased by RMB42 million to RMB3.3 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 RMB3,229.2 million (31 December 2018: RMB3,269.3 million), RMB97.7 million (31 December 2018: RMB94.9 million) and RMB0.1 million (31 December 2018: RMB4.8 million) respectively. The Company has received subsequent settlement totaling RMB1,474.1 million up to 31 July 2019, representing 44% 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 22 days to 100 days as compared to 31 December 2018. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB2,411.0 million (31 December 2018: RMB2,593.2 million), RMB471.5 million (31 December 2018: RMB618.1 million) and RMB15.4 million (31 December 2018: RMB8.0 million) respectively.

ii. Inventory Turnover

As at 30 June 2019, the inventories have decreased by RMB175.6 million compared to 31 December 2018. The inventory turnover days decreased to 106 days as at 30 June 2019 from 108 days for 31 December 2018.

Investing Activities

Net cash invested in 1H 2019 and 1H 2018, amounted to RMB1,218.8 million and RMB2,458.0 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 1H 2019 and 1H 2018, total CAPEX incurred were RMB1,319.0 million and RMB2,270.9 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash used in financing activities of approximately RMB1,452.0 million for 1H 2019. Major outflows were dividend paid to Shareholders of RMB1,094.3 million (1H 2018: RMB1,751.4 million). For 1H 2019, the Group recorded net inflow from bank borrowings, new bank borrowings raised of RMB2,230.5 million (1H 2018: RMB3,068.3 million) and repayment of bank loans of RMB2,157.2 million (1H 2018: RMB3,442.2 million).

Financial Review

Cash and Cash Equivalents

As at 30 June 2019, the unencumbered cash and cash equivalents of the Group amounted to RMB3,173.4 million (31 December 2018: RMB4,058.9 million), of which 47.9% (31 December 2018: 61.9%) was denominated in US dollar, 44.7% (31 December 2018: 30.8%) in RMB, 1.8% (31 December 2018: 4.4%) in Hong Kong dollar, 1.8% (31 December 2018: 0.4%) in Singapore dollar, 1.6% (31 December 2018: 0.5%) in Euros, 0.8% (31 December 2018: 0.3%) in Vietnamese Dong, 0.7% (31 December 2018: 1.2%) in Japanese Yen, and 0.7% (31 December 2018: 0.5%) in other currencies.

Gearing Ratio and Indebtedness

As at 30 June 2019, the Group's gearing ratio, defined as total loans and borrowings divided by total assets, was 20.8% (31 December 2018: 19.8%). Netting off cash and cash equivalents, net gearing ratio was 9.8% (31 December 2018: 6.2%).

The short-term bank loans and long-term bank loans of the Group as at 30 June 2019 amounted to RMB2,321.3 million (31 December 2018: RMB3,492.5 million) and RMB3,693.2 million (31 December 2018: RMB2,427.9 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 RMB11.1 million that were pledged to banks mainly in relation to equipment purchases as at 30 June 2019 (31 December 2018: RMB2.1 million), no other Group assets were charged to any financial institutions.

MAJOR CUSTOMERS AND SUPPLIERS

During 1H 2019, the aggregate sales attributable to the Group's five largest customers comprised approximately 78.2% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 31.3% of the Group's total revenue from sales.

During 1H 2019, the aggregate purchases attributable to the Group's five largest suppliers were 19.1% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 7.5% of the Group's total purchases.

As at 30 June 2019, GIC Private Limited, holding 6.03% of the Company's share capital, had beneficial interests (not exceeded 5%) in three of the Group's five largest customers and had no beneficial interests in any of the Group's five largest suppliers. These three customers have the usual trading terms as any other customers and suppliers of the Group.

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.

HUMAN RESOURCES

As at 30 June 2019, the Group employed 36,057 permanent employees, minor fluctuation from 35,995 employees as at 31 December 2018. The employee size had been stable due to the Group's past effort on implementation of automation.

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 and continues to expand its various R&D centers in Asia, Europe and North America, including a long-established collaboration with universities, and others, on many different projects. The R&D center in Hong Kong Science Park, scheduled to open in Q4 2018, is to start operation soon.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2019, the Group had not entered into any material off-balance sheet transactions.

Key Risk Factors

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In our pursuit of technology innovation, the Company is committed to building sustainable risk management and operational information systems. Since 2018, we have adopted a co-sourcing internal audit model, by engaging a professional accounting firm to work alongside our internal audit department, 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 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 Smartphone Segment of Consumer Electronics Market

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 2019. 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 3,956 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 78% 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.

Key Risk Factors

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

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

Liquidity and Interest Rate Risks

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

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

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

Foreign Exchange Risks

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

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

Key Risk Factors

Intensifying Trade Frictions between China and the US

Trades between China and the US on certain goods had been more restrictive since July 2018, with imposed tariffs on selected categories. The trade tensions have not yet shown signs of alleviation and in May 2019, the US further increased tariffs for certain products imported from China.

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

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

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

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

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

Corporate Governance

CORPORATE GOVERNANCE POLICY AND PRACTICES

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of 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 in Appendix 14 of the Listing Rules (the "CG Code"), the Board is satisfied that for the six months ended 30 June 2019, 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.

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.

Corporate Governance

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)
Zhang Hongjiang	(INED) ~ Appointed on 1 January 2019
Poon Chung Yin Joseph	(INED)
Kwok Lam Kwong Larry	(INED)
Peng Zhiyuan	(INED) ~ Appointed on 1 January 2019
Pan Benjamin Zhengmin	(ED & CEO)
Mok Joe Kuen Richard	(ED)
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)	Zhang Hongjiang (Chairman)	Poon Chung Yin Joseph (Chairman)
Poon Chung Yin Joseph	Kwok Lam Kwong Larry	Au Siu Cheung Albert
Kwok Lam Kwong Larry	Peng Zhiyuan	Zhang Hongjiang
Peng Zhiyuan		

* 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, risk management 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.

Corporate Governance

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

Operations

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

Internal Audit Team/ 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

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.

Corporate Governance

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.

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 audit and external auditor.

Nomination Committee

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.

Corporate Governance

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.

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	Zhang Hongjiang	Poon Chung Yin Joseph	Kwok Lam Kwong Larry	Peng Zhiyuan	Wu Ingrid Chun Yuan
Gender	Male	Male	Male	Male	Male	Male	Male	Male	Female
Age	50	55	68	68	58	65	63	46	48
Academic Background	Graduated from the Jiangsu Province Wujin Teacher School	Bachelor Degree of Economics	Bachelor Degree in Mechanical Engineering	N/A	Ph.D in Electrical Engineering	Bachelor of Degree in Commerce	Master Degree in Laws	Master Degree in Business and Administration	Graduated from Changzhou School of Public Health
Length of service	14 years	13 years	14 years	<2 years	<1 year	9 years	<2 years	<1 year	14 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 from time to time 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.

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.

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 1H 2019, no new shares have been issued to the Trustee and no shares of the Company had been purchased by the Trustee nor had any share awards been granted to any employees.

CORPORATE GOVERNANCE CODE

The Company has continued to fully comply with requirements of the Code Provisions for the six months ended 30 June 2019. 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.
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.
Whistleblowing Policy for employees and other stakeholders (e.g. customers and suppliers)	A whistleblowing policy and an established process have been in place since 2012 to ensure all matters of concerns are addressed.
Regular Board Evaluation	The Board conducts an annual evaluation of its and the Committees' performance.
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.

LEGAL AND REGULATORY COMPLIANCE

Compliance

During the 1H 2019, 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.

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 six months ended 30 June 2019.

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

As at 30 June 2019, 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:

Name of Directors of the Company	Capacity	Number of ordinary shares					Percentage of the Company's issued shares as at 30 June 2019[1]
		Personal interests	Corporate interests	Spouse interests	Other interests	Total number of shares	
Mr. Pan Benjamin Zhengmin ("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	40.98%
Ms. Wu Ingrid Chun Yuan ("Ms. Wu")[3]	Interest of spouse/interest of controlled corporation/ founder of a discretionary trust	–	262,820,525	120,952,005	111,545,122	495,317,652	40.98%
Mr. Koh Boon Hwee ("Mr. Koh")	Beneficial owner	795,562	–	–	–	795,562	0.06%
Mr. Mok Joe Kuen Richard	Beneficial owner	100,000	–	–	–	100,000	< 0.01%
Mr. Zhang Hongjiang	Beneficial owner	100,000	–	–	–	100,000	< 0.01%

Notes:

(1) Percentage was computed based on the issued 1,208,500,000 shares as at 30 June 2019.

(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 30 June 2019, none of the Directors of the Company, chief executive nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

Disclosure of Conflict of Interest

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

Mr. Koh, a Director of the Company holding around 0.06% of the Company's share capital, is currently a member of the investment board of our substantial Shareholder – GIC Private Limited.

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

Change in Directors' information since the date of the 2018 annual report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Au Siu Cheung Albert, an independent non-executive Director (INED), has completed his tenure as a non-executive director of the Securities and Futures Commission (SFC) as well as the chairman of the SFC's audit committee and deputy chairman of the budget committee, member of the SFC (HKEC Listing) appeals committee, the investment committee and the remuneration committee on 25 May 2019. He also resigned as an INED of ZA Bank Limited (formerly known as ZhongAn Virtual Finance Limited) and ZhongAn Financial Services Limited.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, 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 corporations 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 30 June 2019[1]
GIC Private Limited	Investment Manager	72,886,500(L)	–	6.03%
JPMorgan Chase & Co. [2]	Interest of controlled corporation/ Person have security interest in shares/Investment Manager/ Trustee/Approved lending agent	117,837,245(L) 5,116,694(S) 23,219,433(P)	9,666,627(L) 4,955,767(S)	10.55% 0.83% 1.92%

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

Notes:

(1) Percentage was computed based on the issued 1,208,500,000 shares as at 30 June 2019.

(2) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 117,837,245 shares and listed derivative interests of 61,000 shares with physically settled, listed derivative interests of 233,450 shares with cash settled, unlisted derivative interests of 310,000 shares with physically settled, and unlisted derivative interests of 9,062,177 shares with cash settled in long position; and (ii) an aggregate of 5,116,694 shares and listed derivative interests of 35,000 shares with physically settled, listed derivative interests of 879,400 shares with cash settled, listed derivative interests of 6 shares with convertible instruments, unlisted derivative interests of 2,884,719 shares with physically settled, and unlisted derivative interests of 1,156,642 shares with cash settled in short position. Among them, 111,559,712 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.

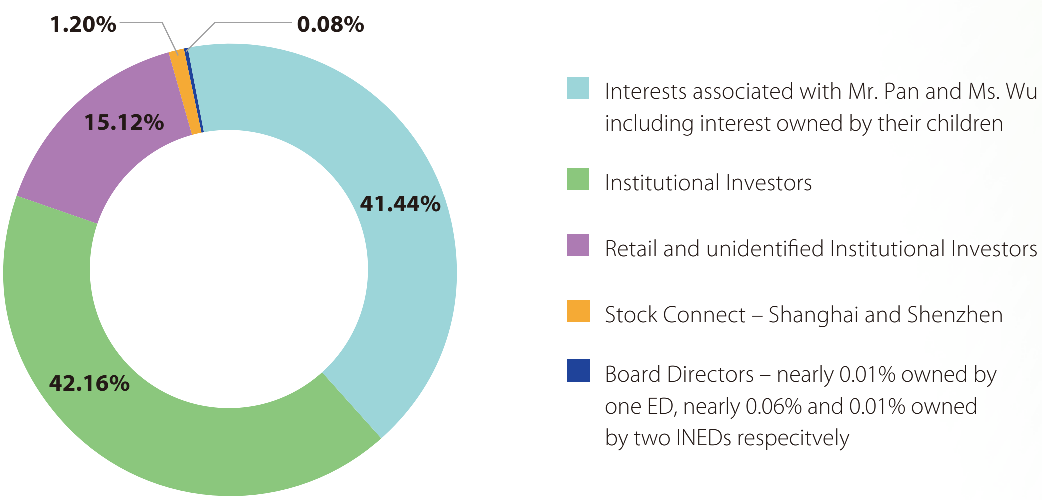
In addition to the above, JPMorgan Chase & Co. is also interested in 23,219,433 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be 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.

SHAREHOLDERS STRUCTURE

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 67 direct registered Shareholders as at 30 June 2019. 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 30 June 2019, amounted to 14.7 million shares, or representing 1.2% 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 30 June 2019 and revealed the shareholding structure as follows:

I) Shareholders by Category:
(per Shareholder Analysis as at 30 June 2019, rounded to nearest 0.01%)



II) Shareholders by Domicile:

	% of Total Issued Shares
Hong Kong	64.53
North America	16.88
Singapore	8.28
United Kingdom	4.73
Europe (ex-United Kingdom)	2.48
Rest of World	1.76
China	1.34
TOTAL	**100**

Notes:

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

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

3. The approximate percentage of shareholding is calculated on the basis of 1,208,500,000 shares in issue (after the cancellation of repurchased shares) as at 30 June 2019.

Sustainability

Safety first, scientific management and sustainable development remain the values at the core of every business decision made by the Group. This value framework forms the backbone of the Group's sustainability vision which aims to achieve a balance between economic performance, environmental stewardship and corporate social responsibility that go beyond the business operations.

In April 2019, the Group published its 2018 Sustainability Report including a set of key performance indicators on environmental, social and governance aspects which have been verified by an independent third party. The Sustainability Report was prepared in accordance with the core option of the Global Reporting Initiatives Standards, and in compliance with the "comply or explain" provisions of the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide. The Group deepened its efforts for aligning sustainability performance with the United Nation's Sustainable Development Goals (SDGs) and recommendations from the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework.

The Group's efforts to raise the bar on reporting the ESG performance continue to receive industry recognition. The Group has been included as one of the 30 constituent stocks of the Hang Seng Corporate Sustainability Index since 2014. Our 2017 Sustainability Report also received accolades such as "Best ESG Report (Large-Cap)" from Hong Kong ESG Reporting Awards 2018 and "Best in Reporting – Certificate of Merit" from BDO ESG Awards 2019. The Group will continue seeking comprehensive and accurate ESG data in pursuit of better alignment of interests of the Group and its stakeholders.

During the first half of 2019, the Group continued to develop advanced miniaturised proprietary technology solutions, striving towards the goal of "Leading Innovation & Enhancing User Experience". The Group successfully obtained 639 additional patents of which 357 are for the non-acoustic segments, bringing the intellectual property portfolio to a total of 3,956 patents. The Group filed another 694 patent applications during the period, which bring to a total of 2,917 patents pending.

ENVIRONMENTAL MANAGEMENT

The Group has strictly complied with environmental laws and regulations in locations where it has operations. To ensure compliance, the Group's major manufacturing bases in the PRC are certified for the ISO 14001 standard environmental management system.

As part of the integral efforts to go beyond compliance and strive for a more eco-efficient operating environment, we have undertaken preparations in the first half of 2019 for certification under ISO50001 energy management system and for applying for green factory certification of our manufacturing facilities. While the initial focus is on the bases located in Changzhou, the environmental management efforts will gradually be expanded to other manufacturing bases.

The Group monitors the latest changes in applicable environmental rules and regulations and strive to optimise the management approach accordingly. The Group was not aware of any material non-compliance of laws and regulations during the period under review that have a significant impact on the Group related to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

Sustainability

TALENT MANAGEMENT

Talent development is a key competitive factor in our industry. During the period under review, the Group continued to prepare the workforce for the future, by improved communications within the Group through a wide-variety of communication channels and increased transparency of the communication results.

Another key action is to support the development of young talents who will be instrumental in steering the Group towards "Smart Manufacturing". In addition to training programmes covering a wide-range of topics from engineering and automation, safety and quality and equipment installation to Six Sigma certification, the Group ensures a prosperous career roadmap, a balanced work-life experience and a sense of belonging for the recruited young talents.

SUPPLIER MANAGEMENT

The Group manages supplier performance on environmental and social aspects based on a supplier code of conduct and a risk-based supply chain assessment methodology evaluated on a regular basis, ensuring the business principles, conduct and standards of its suppliers are aligned with its own. In particular, raw material procurement contracts require the suppliers to procure materials in accordance with requirements set out in the Responsible Business Alliance, ensuring there are no conflict minerals originating from regions in the Democratic Republic of Congo and its adjoining countries.

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF AAC TECHNOLOGIES HOLDINGS INC.
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of AAC Technologies Holdings Inc. (the "Company") and its subsidiaries set out on pages 32 to 58, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by International Accounting Standards Board. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	NOTES	1.1.2019 to 30.6.2019 (Unaudited) RMB'000	1.1.2018 to 30.6.2018 (Unaudited) RMB'000
Revenue	3	7,567,523	8,424,381
Cost of goods sold		(5,483,162)	(5,329,786)
Gross profit		2,084,361	3,094,595
Other income, gains and losses	4	115,992	91,630
Gain on final settlement of earn-out consideration		–	147,830
Fair value gain (loss) on financial assets at fair value through profit or loss	10	15,179	(93,056)
Distribution and selling expenses		(120,731)	(138,854)
Administrative expenses		(291,342)	(277,708)
Research and development costs		(830,796)	(722,695)
Exchange gain (loss)		29,519	(2,367)
Finance costs		(114,360)	(102,671)
Profit before taxation	5	887,822	1,996,704
Taxation	6	(118,013)	(218,283)
Profit for the period		769,809	1,778,421
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		13,890	32,288
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising from translation of foreign operations		(33,817)	(8,934)
Fair value changes on derivative financial instruments		(25,218)	13,563
(Gain) loss reclassified to profit or loss on hedged items		(1,811)	1,026
		(46,956)	37,943
Total comprehensive income for the period		722,853	1,816,364
Profit for the period attributable to owners of the Company		769,809	1,778,421
Total comprehensive income for the period attributable to owners of the Company		722,853	1,816,364
Earnings per share - Basic	8	RMB0.64	RMB1.46

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	30.6.2019 (Unaudited) RMB'000	31.12.2018 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	9	16,120,029	15,440,039
Right-of-use assets	9	700,499	–
Goodwill		164,350	164,350
Prepaid lease payments		–	622,362
Deposits made for acquisition of property, plant and equipment		669,966	1,085,904
Investment properties	9	14,257	14,854
Equity instruments at fair value through other comprehensive income	10	189,149	178,684
Intangible assets		345,818	366,607
Derivative financial instruments	11	–	11,153
		18,204,068	17,883,953
Current assets			
Inventories		3,143,933	3,319,480
Trade and other receivables	12	4,311,345	4,474,213
Financial assets at fair value through profit or loss	10	30,978	22,426
Amounts due from related companies		2,843	4,991
Taxation recoverable		22,415	35,509
Pledged bank deposits		11,100	2,100
Bank balances and cash		3,204,906	4,126,494
		10,727,520	11,985,213
Current liabilities			
Trade and other payables	13	4,061,008	4,548,240
Contract liabilities		12,118	8,673
Lease liabilities		38,776	–
Amounts due to related companies		63,590	62,468
Taxation payable		169,693	204,880
Bank loans	14	2,321,294	3,492,507
		6,666,479	8,316,768
Net current assets		4,061,041	3,668,445
Total assets less current liabilities		22,265,109	21,552,398
Non-current liabilities			
Bank loans	14	3,693,196	2,427,854
Government grants		174,414	117,779
Lease liabilities		25,875	–
Deferred tax liabilities		69,356	71,669
Derivative financial instruments	11	17,047	998
		3,979,888	2,618,300
Net assets		18,285,221	18,934,098
Capital and reserves			
Share capital	15	98,135	98,906
Reserves		18,187,086	18,835,192
Total equity		18,285,221	18,934,098

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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	Investments revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000
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
Effect on adoption of new standard of IFRS 9	–	–	–	–	–	–	(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
Exchange differences arising from translation	–	–	–	–	–	(8,934)	–	–	–	–	–	(8,934)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	32,288	–	–	–	–	32,288
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	13,563	–	13,563
Loss reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	1,026	–	1,026
Profit for the period	–	–	–	–	–	–	–	–	–	–	1,778,421	1,778,421
Total comprehensive (expense) income for the period	–	–	–	–	–	(8,934)	32,288	–	–	14,589	1,778,421	1,816,364
Dividends declared (note 7)	–	–	–	–	–	–	–	–	–	–	(1,751,456)	(1,751,456)
Transfer to reserve	–	–	–	–	–	–	–	–	10,811	–	(10,811)	–
At 30 June 2018 (unaudited)	99,231	234,771	–	1,135	23,391	(39,775)	61,405	87,245	479,703	19,027	16,649,715	17,615,848
At 31 December 2018 (audited)	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
Effects on adoption of new standard (note 2)	–	–	–	–	–	–	–	–	–	–	(10)	(10)
At 1 January 2019 (restated)	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,539	18,934,088
Exchange differences arising from translation of foreign operations	–	–	–	–	–	(33,817)	–	–	–	–	–	(33,817)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	13,890	–	–	–	–	13,890
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	(25,218)	–	(25,218)
Gain reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	(1,811)	–	(1,811)
Profit for the period	–	–	–	–	–	–	–	–	–	–	769,809	769,809
Total comprehensive (expense) income for the period	–	–	–	–	–	(33,817)	13,890	–	–	(27,029)	769,809	722,853
Dividends declared (note 7)	–	–	–	–	–	–	–	–	–	–	(1,094,264)	(1,094,264)
Shares repurchased	–	–	(277,456)	–	–	–	–	–	–	–	–	(277,456)
Shares cancelled	(771)	(36,438)	356,658	–	–	–	–	–	–	–	(319,449)	–
Transfer to reserve	–	–	–	–	–	–	–	–	163,563	–	(163,563)	–
At 30 June 2019 (unaudited)	98,135	–	–	1,135	23,391	(14,862)	32,528	87,245	877,451	(16,874)	17,197,072	18,285,221

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	NOTES	1.1.2019 to 30.6.2019 (Unaudited) RMB'000	1.1.2018 to 30.6.2018 (Unaudited) RMB'000
Net cash from operating activities		1,784,980	3,810,229
Net cash used in investing activities			
Purchase of property, plant and equipment		(676,977)	(1,294,565)
Deposits paid for acquisition of property, plant and equipment		(669,966)	(1,106,077)
Placement of time deposits with original maturity over three months		(31,483)	(87,223)
Payments for right-of-use assets		(18,244)	–
Placement of pledged bank deposits		(11,100)	(5,502)
Payments for rental deposits		(80)	–
Withdrawal of time deposits with original maturity over three months		67,545	–
Government grants received relating to acquisitions of property, plant and equipment		63,651	–
Interest received		31,805	25,760
Proceeds from disposal of property, plant and equipment		17,168	3,963
Proceeds from disposal of financial assets at fair value through profit or loss	10	6,771	279,921
Withdrawal of pledged bank deposits		2,100	11,330
Acquisition of a business	17	–	(155,079)
Acquisition of an equity instrument at fair value through other comprehensive income		–	(100,000)
Additions to intangible assets		–	(30,784)
Prepaid rentals on prepaid lease payments		–	(5,684)
Settlement received on earn-out consideration		–	5,568
Other investing cash flows		–	364
		(1,218,810)	(2,458,008)
Net cash used in financing activities			
Bank loans raised		2,230,526	3,068,288
Repayment of bank loans		(2,157,223)	(3,442,207)
Dividends paid	7	(1,094,264)	(1,751,456)
Repurchase of shares	15	(277,456)	–
Interest paid		(112,091)	(102,671)
Repayments of lease liabilities		(30,001)	–
Acquisition of additional interest in a subsidiary in previous years		(11,455)	–
		(1,451,964)	(2,228,046)
Net decrease in cash and cash equivalents		(885,794)	(875,825)
Cash and cash equivalents at 1 January		4,058,949	4,034,082
Effect of foreign exchange rate changes		268	(13,485)
		3,173,423	3,144,772
Represented by:			
Bank balances and cash		3,204,906	3,231,995
Less: Time deposits with original maturity over three months		(31,483)	(87,223)
Cash and cash equivalents at 30 June		3,173,423	3,144,772

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. GENERAL

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC - Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 Cycle

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases*

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2.1.1 *Key changes in accounting policies resulting from application of IFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

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

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

<u>Short-term leases and leases of low-value assets</u>

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Right-of-use assets

Except for short-term leases and lease of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)*

2.1.1 *Key changes in accounting policies resulting from application of IFRS 16 (continued)*

As a lessee (continued)

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

Taxation

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes requirements* to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties and land leases in the Mainland China was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease terms for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8 (b) (ii) transaction.

The Group recognised lease liabilities of RMB75,291,000 and right-of-use assets of RMB698,083,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.07%.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)*

2.1.2 *Transition and summary of effects arising from initial application of IFRS 16 (continued)*

As a lessee (continued)

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	95,080
Less: Recognition exemption – short-term leases and low-value assets leases	(17,215)
	77,865
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	75,291
Analysed as	
Current	50,593
Non-current	24,698
	75,291

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		75,291
Reclassified from prepaid lease payments	(a)	622,362
Adjustments on rental deposits at 1 January 2019	(b)	430
		698,083
By class:		
Land		622,362
Buildings		75,721
		698,083

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee (continued)

Notes:

(a) Upfront payments for leasehold land in People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to RMB622,362,000 were reclassified to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB430,000, RMB440,000 and RMB10,000 were adjusted to right-of-use assets, refundable rental deposits paid and retained profits respectively.

The following is the impact of transition to IFRS 16 on retained profits at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 RMB'000
Retained profits	
Adjustments on rental deposits paid and impact at 1 January 2019	(10)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Prepaid lease payments	622,362	(622,362)	–
Right-of-use assets	–	698,083	698,083
Current Assets			
Trade and other receivables	4,474,213	(440)	4,473,773
Current Liabilities			
Lease liabilities	–	50,593	50,593
Non-current liabilities			
Lease liabilities	–	24,698	24,698
Capital and reserves			
Reserves	18,835,192	(10)	18,835,182

3. SEGMENT INFORMATION

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

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. The Group's operating and reportable segments 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 mechanics, 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.

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

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

3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Operating and reportable segments		
Segment revenue – recognised at a point in time		
Dynamic components	**3,645,851**	4,302,244
Electromagnetic drives and precision mechanics	**3,029,986**	3,438,336
MEMS components	**380,104**	343,931
Other products	**511,582**	339,870
	7,567,523	8,424,381
Segment results		
Dynamic components	**1,097,438**	1,614,578
Electromagnetic drives and precision mechanics	**900,478**	1,360,510
MEMS components	**89,316**	66,782
Other products	**(2,871)**	52,725
Total profit for operating and reportable segments – gross profit	**2,084,361**	3,094,595
Unallocated amounts:		
Interest income	**31,618**	24,070
Other income, gains and losses	**84,374**	67,560
Gain on final settlement of earn-out consideration	**–**	147,830
Fair value gain (loss) on financial assets at fair value through profit or loss	**15,179**	(93,056)
Distribution and selling expenses	**(120,731)**	(138,854)
Administrative expenses	**(291,342)**	(277,708)
Research and development costs	**(830,796)**	(722,695)
Exchange gain (loss)	**29,519**	(2,367)
Finance costs	**(114,360)**	(102,671)
Profit before taxation	**887,822**	1,996,704

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

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

3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Greater China* (country of domicile)	**3,252,295**	3,029,377
Other foreign countries:		
America	**3,512,903**	4,387,788
Other Asian countries	**789,225**	1,002,263
Europe	**13,100**	4,953
	7,567,523	8,424,381

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

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

During the period, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB4,556,126,000 (six months ended 30 June 2018: RMB6,453,837,000). No disclosure of the total amount of revenue by each customer and number of customers is disclosed, as in the opinion of the management of the Company such disclosure is harmful to the Group's business.

4. OTHER INCOME, GAINS AND LOSSES

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Government subsidy income	**86,781**	43,929
Interest income	**31,618**	24,070
Others	**(2,407)**	23,631
	115,992	91,630

5. PROFIT BEFORE TAXATION

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	20,920	15,413
Allowance (reversal) for obsolete inventories, included in cost of goods sold	48,594	(5,846)
Depreciation of property, plant and equipment	980,611	818,635
Depreciation of right-of-use assets	38,467	N/A
Release of prepaid lease payments	N/A	5,961

6. TAXATION

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
The tax charge (credit) comprises:		
PRC Enterprise Income Tax	98,958	176,719
Other jurisdictions	47,877	54,603
Hong Kong Profits Tax	–	87
Overprovision of taxation in prior years	(29,906)	(12,773)
	116,929	218,636
PRC withholding tax	3,344	–
Deferred tax	(2,260)	(353)
	118,013	218,283

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

The PRC dividend withholding tax is calculated at the applicable rate in accordance with the relevant laws and regulations in the PRC.

6. TAXATION (CONTINUED)

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

In addition, certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises ("HNTE") till the dates ranging from 31 October 2020 to 28 November 2021. Pursuant to the EIT Law, those PRC subsidiaries entitled as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

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

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

7. DIVIDENDS

During the current interim period, a final dividend of HK$1.03 per share in respect of the year ended 31 December 2018 (six months ended 30 June 2018: final dividend of HK$1.70 per share in respect of the year ended 31 December 2017) was paid to shareholders of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK$1,244,755,000 (equivalent to RMB1,094,264,000) (six months ended 30 June 2018: HK$2,077,400,000 (equivalent to RMB1,751,456,000)).

Subsequent to the end of the interim period, the Directors have resolved that an interim dividend of HK$0.40 per share (2018 interim dividend: HK$0.40 per share) will be paid to the shareholders of the Company.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to owners of the Company of RMB769,809,000 (six months ended 30 June 2018: RMB1,778,421,000) and on the weighted average of 1,211,874,000 (six months ended 30 June 2018: 1,222,000,000) shares in issue during the period.

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

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

(i) Property, plant and equipment

During the period, the Group acquired property, plant and equipment of RMB1,716,734,000 (six months ended 30 June 2018: RMB2,073,177,000). Part of the consideration of RMB1,085,904,000 (six months ended 30 June 2018: RMB913,987,000) was paid up in advance in prior year.

Also, during the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB17,862,000 (six months ended 30 June 2018: RMB4,101,000) for proceeds of RMB17,168,000 (six months ended 30 June 2018: RMB3,963,000) and resulting in a loss on disposal of RMB694,000 (six months ended 30 June 2018: RMB138,000).

(ii) Right-of-use assets

During the current interim period, the Group entered into a number of new lease agreements for the use of land and buildings ranging from 1 to 5 years. The Group is required to make fixed future payment and, in certain cases, is required to make prepayments. On lease commencement, the Group recognised RMB35,829,000 of right-of-use assets of which RMB18,244,000 represents prepaid lease payments, and RMB17,505,000 of lease liabilities.

(iii) Investment properties

During the period, depreciation on the investment properties amounted to RMB597,000 (six months ended 30 June 2018: RMB597,000) was charged to the profit or loss.

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Equity instruments at fair value through other comprehensive income ("FVTOCI")

	30.6.2019	31.12.2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Unlisted shares	**135,712**	141,255
Listed shares	**53,437**	37,429
	189,149	178,684

Unlisted shares

Included in the Group's investment in unlisted shares is an investment in a holding company, holding equity interests in a company engaged in producing semiconductor components in integrated circuits and development of intellectual properties. As at 30 June 2019, the fair value of the investment determined by market approach was RMB100,000,000 (31 December 2018: RMB100,000,000).

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(i) Equity instruments at fair value through other comprehensive income ("FVTOCI") (continued)

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 30 June 2019, the fair value of the investment determined by reference to the quoted market bid prices available was RMB53,437,000 (31 December 2018: RMB37,429,000).

(ii) Financial assets at fair value through profit or loss ("FVTPL")

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Listed shares – AMS	**30,978**	22,426

The amount represents the Group's investment in AMS AG ("AMS"). AMS is a Swiss listed company incorporated in Austria and is engaged in the manufacturing of sensor and analogy solutions.

During the current interim period, a certain number of AMS shares were disposed of in the market for an aggregate proceed of RMB6,771,000. The fair value gain related to these shares was RMB536,000, which has been included as part of the gain on changes in fair value recognised in the profit or loss during the interim period.

As at 30 June 2019, the fair value of the AMS shares held by the Group, determined by reference to the quoted market bid prices available, amounted to RMB30,978,000 (31 December 2018: RMB22,426,000) and a gain on changes in fair value on the AMS shares of RMB14,643,000 has been recognised in the profit or loss.

Subsequent to 30 June 2019, the Group disposed of its entire interest in AMS in the market at a total consideration of CHF5,014,000 (equivalent to RMB35,033,000).

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Derivatives financial assets – under hedge accounting		
Interest rate swap contracts	**–**	11,153
Derivatives financial liabilities – under hedge accounting		
Interest rate swap contracts	**17,047**	998

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Net adjustments on cash flow hedges of loss of RMB27,029,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: gain of RMB14,589,000) have been recognised in other comprehensive income 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.

12. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment. As at 30 June 2019, included in trade and other receivables, the Group has bank acceptance and commercial bills amounting to RMB143,753,000 (31 December 2018: RMB196,261,000). The following is an aged analysis of trade and bills receivables presented based on the invoice date, which approximates the revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Age		
0 – 90 days	**3,229,125**	3,269,316
91 – 180 days	**97,709**	94,939
Over 180 days	**122**	4,758
	3,326,956	3,369,013

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

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

13. TRADE AND OTHER PAYABLES

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

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Age		
0 – 90 days	2,411,056	2,593,244
91 – 180 days	471,465	618,059
Over 180 days	15,398	8,036
	2,897,919	3,219,339

14. BANK LOANS

The variable rate bank loans carry interest ranging from 3.43% to 4.03% (31 December 2018: 3.19% to 3.74%) per annum. The fixed rate bank loans carry interest ranging from 3.20% to 4.75% (31 December 2018: 2.90% to 4.75%) per annum. The Company has issued guarantees to respective banks to secure the borrowings.

15. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2018, 1 January 2019 and 30 June 2019	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2018 and 30 June 2018	1,222,000,000	12,220
Shares repurchased and cancelled	(4,000,000)	(40)
Ordinary shares at 31 December 2018 and 1 January 2019	1,218,000,000	12,180
Shares repurchased and cancelled	(9,500,000)	(95)
Ordinary shares at 30 June 2019	1,208,500,000	12,085

15. SHARE CAPITAL (CONTINUED)

	RMB'000
Presented in the condensed consolidated statement of financial position	
As at 1 January 2018	99,231
Shares repurchased and cancelled	(325)
As at 31 December 2018 and 1 January 2019	98,906
Shares repurchased and cancelled	(771)
As at 30 June 2019	98,135

During the current interim period, the Company repurchased a total of 7,500,000 issued ordinary shares of the Company in the market for a consideration of HK$319,854,000 (equivalent to RMB277,456,000). 9,500,000 ordinary shares were cancelled during the period ended 30 June 2019, including 2,000,000 ordinary shares which were repurchased during the year ended 31 December 2018.

16. SHARE AWARD SCHEME

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

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

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

No shares were issued to the Trustee and no shares of the Company had been purchased by the Trustee nor any share awards had been granted to any employees since adoption of the Scheme.

17. ACQUISITION OF A 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 RMB142,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in the "administrative expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

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

17. ACQUISITION OF A BUSINESS (CONTINUED)

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

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

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

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

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

Impact of acquisition on the results of the Group

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

Had the acquisition of Xuanyingtong been completed on 1 January 2018, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been RMB8,634,826,000 and the amount of the profit for the six months ended 30 June 2018 would have been RMB1,777,566,000. The pro forma 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 had calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

18. CAPITAL COMMITMENTS

	30.6.2019 RMB’000 (Unaudited)	31.12.2018 RMB’000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	876,125	732,453

19. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the condensed consolidated financial statements, during the period, 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	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Purchase of raw materials	55,966	53,143
Sales of raw materials	643	554
Property rentals expenses paid	–	12,430
Property rentals paid for leases liabilities	12,478	–
Property rentals received	780	781

Nature of transactions	1.1.2019 to 30.6.2019 US$'000 (Unaudited)	1.1.2018 to 30.6.2018 US$'000 (Unaudited)
Property rentals paid	88	90

During the period, the emoluments paid to the key management personnel of the Company, who represent the Directors of the Company, were RMB6,653,000 (six months ended 30 June 2018: RMB8,492,000).

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

In estimating the fair value of an asset or a liability, the management uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management may consider to engage third party qualified valuers to perform the valuation.

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

20. 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)

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30.6.2019	31.12.2018		
	RMB'000	RMB'000		
	(Unaudited)	(Audited)		
Interest rate swap contracts	**–**	11,153 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.
Financial assets at FVTPL – Listed shares	**30,978**	22,426	Level 1	Quoted bid prices in an active market.
Equity instruments at FVTOCI – Listed shares	**53,437**	37,429	Level 1	Quoted bid prices in an active market.
Equity instruments at FVTOCI – Unquoted equity investments	**6,818**	12,409	Level 3	Income approach. The discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.
Equity instruments at FVTOCI – Unquoted equity instruments	**128,894**	128,846	Level 3	Market approach. The market approach was used to determined the valuation using trailing-twelve-month Price-to-Sales multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)		
Interest rate swap contracts	**17,047 Liabilities (under hedge accounting)**	998 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.

The management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI RMB'000
At 31 December 2018 and 1 January 2019	**141,255**
Disposals	**(5,537)**
Currency realignment	**(6)**
At 30 June 2019	**135,712**

21. EVENTS AFTER REPORTING PERIOD

Subsequent to 30 June 2019, the Group disposed of its entire interest in AMS in the market at a total consideration of CHF5,014,000 (equivalent to RMB35,033,000).

Investors Information

STOCK CODES

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, (Mainland and HK) Corporate Sustainability Index, HSI ESG Index
- Composite LargeCap Index
- Composite Industry Index (Information Technology) *(The Company was re-classified into "Composite Industry Index (Inustrials)", effective from 9 September 2019.)*
- Hang Seng IT Hardware Index
- High Beta Index

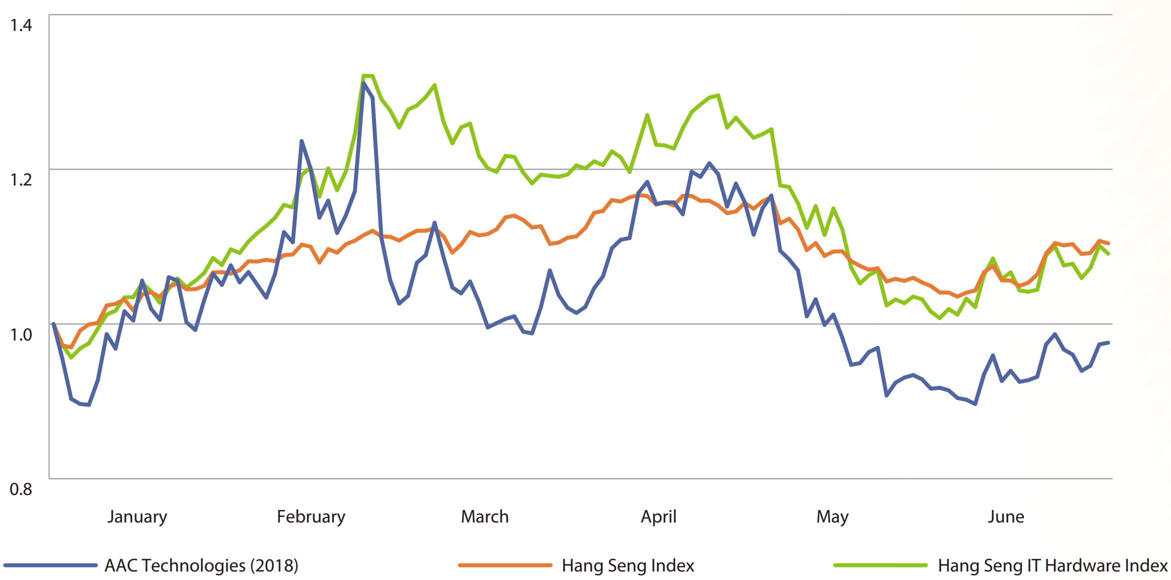
MSCI China Index
FTSE Hong Kong Index

MARKET CAPITALIZATION AND SHARE PRICE PERFORMANCE

As at 30 June 2019, the market capitalization of listed shares of the Company was approximately HK$53.6 billion or US$6.9 billion based on the total number of 1,208,500,000 issued shares of the Company and the closing price of HK$44.35 per share.

The daily average number of traded shares was approximately 10.7 million shares over an approximate free float of 713.1 million shares in 1H 2019. The average closing price was HK$47.27 per share, a decrease of 64.8% when compared with the average of 1H 2018. The highest closing price was HK$59.6 per share on 22 February 2019 and the lowest was HK$40.7 per share on 7 January 2019.

6-month relative performance of the Company vs Hang Seng Index and Hang Seng IT Hardware Index from 1 January to 30 June 2019 is set out below:



Base: 31 December 2018 closing = 1.0
Source: Bloomberg

Investors Information

In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial period ended 30 June 2019 and has continued to maintain the public float as at the date of this interim report.

KEY DATES FOR SHAREHOLDERS

23 August 2019	2019 Interim Results Announcement
11–18 September 2019	Book Closure Period for Interim Dividend
16 September 2019	2019 Interim Report available on the Company's website
18 September 2019	Record Date for Interim Dividend
27 September 2019	Payment of 2019 Interim Dividend
Mid-November 2019	2019 Third Quarter Results Announcement
End-March 2020	2019 Annual Results Announcement

Any changes to these dates in 2019/2020 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 interim 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
Email	:	aac2018@aactechnologies.com

Official IR wechat group:

Glossary

Abbreviations	Meanings
General	
1H	For the six months ended 30 June
AAC/AAC Technologies/the Company	AAC Technologies Holdings Inc.
AGM	Annual General Meeting
Board	The board of directors of the Company
CAPEX	Capital expenditures
CCASS	Central Clearing and Settlement System
CEO	Chief Executive Officer
CG Code	Corporate Governance Code in Appendix 14 of the Listing Rules
Code Provision(s)	Code Provisions of the CG Code
Committees	Committees of the Board
Companies Ordinance	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
Deloitte	Messrs. Deloitte Touche Tohmatsu
Director(s)	The Director(s) of the Company
EIT Law	Law of the PRC on Enterprise Income Tax
EBITDA	Profit (Earnings) before interest, tax, depreciation and amortization
EPS	Earning per share
ESG	Environmental, Social and Governance
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
HNTE	High-New Technology Enterprises
IAS 34	International Accounting Standard 34 “Interim Financial Reporting”
IFRSs	International Financial Reporting Standards
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuer under Appendix 10 of the Listing Rules
Ordinary Shares	Ordinary shares in the capital of the Company
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

Glossary

Abbreviations	Meanings
Shareholders	The shareholders of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
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
China/PRC	People's Republic of China
US	United States of America
HKD/HK$	Hong Kong Dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of PRC
USD/US$	US Dollars, the lawful currency of United States
Industry	
5G	5th Generation
AR	Augmented Reality
ASP	Average selling price
MEMS	Micro Electro-Mechanical Systems
RF	Radio Frequency
SLS	Super Linear Structure
WLG	Wafer-level glass