AAC Acoustic Technologies Holdings Inc.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 2018

Annual Report 2005

Contents

Corporate Information

DIRECTORS
Executive Director
Mr. Benjamin Zhengmin Pan
(Chief Executive Officer)
Non-executive Directors
Ms. Ingrid Chunyuan Wu
Mr. Yang Dong Shao
Dr. Thomas Kalon Ng
Independent non-executive Directors
Mr. Koh Boon Hwee *(Chairman)*
Dr. Dick Mei Chang
Mr. Mok Joe Kuen Richard

COMPANY SECRETARY
Ms. Lau Sim *(CPA, ACCA)*

QUALIFIED ACCOUNTANT
Ms. Lau Sim *(CPA, ACCA)*

AUDIT COMMITTEE
Mr. Mok Joe Kuen Richard *(Chairman)*
Mr. Koh Boon Hwee
Ms. Ingrid Chunyuan Wu

REMUNERATION COMMITTEE
Mr. Koh Boon Hwee *(Chairman)*
Dr. Dick Mei Chang
Dr. Thomas Kalon Ng

NOMINATION COMMITTEE
Dr. Dick Mei Chang *(Chairman)*
Mr. Mok Joe Kuen Richard
Mr. Yang Dong Shao

AUTHORIZED REPRESENTATIVES
Mr. Benjamin Zhengmin Pan
Ms. Lau Sim
Alternative authorized representative
Mr. Mok Joe Kuen Richard

COMPLIANCE ADVISOR
Goldbond Capital (Asia) Limited
39th Floor, Tower 1
Lippo Centre
89 Queensway
Hong Kong

LEGAL ADVISOR
Clifford Chance
29th Floor, Jardine House
One Connaught Place
Central
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PLACE OF BUSINESS IN HONG KONG
Unit 1409, Peninsula Square
18 Sung On Street
Hunghom
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town, Grand Cayman
Cayman Islands
British West Indies

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

PRINCIPAL BANKERS
Industrial and Commercial Bank of China
Shenzhen Nantou Sub-branch

Bank of China
Wujin Sub-branch

STOCK CODE
2018

WEBSITE
www.aacelectr.com
www.aacacoustic.com

Chairman Statement

Dear Shareholders,

Year 2005 was a very successful year for AAC Acoustic Technologies Holdings Inc. ("AAC Acoustic" or the "Company").

The Company and its subsidiaries (the "Group") made good progress in its business development, enhancing its market leadership and reputation, widening its product range, strengthening its research and development capabilities, and establishing strategic relationships with leading global OEMs. In addition, the Company's listing (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9th August, 2005 met with overwhelming support from international capital markets. Net proceeds of HK$703.8 million were raised to strengthen the Group's financial position and to fund its future development. Since the Listing, the Company has endeavoured to meet the highest levels of professional standards, including transparency for shareholders and best practices of corporate governance. We remain confident in the Group's business development strategy and its future outlook.

For the year ended 31st December, 2005, the Group delivered encouraging financial results. Consolidated turnover increased by 71.3% to RMB1,073.7 million, and net profit grew by 68.4% to RMB332.9 million, as compared to the previous year.

During the year under review, the Group fully leveraged on its research and development capabilities to secure its leading position in the industry. The Group grew faster than its peers and continued to be one of the top players in the industry. In addition, new handset models being introduced incorporated new platforms with more value added acoustic features. These trends are driving the growth in demand for miniature acoustic components and are considered beneficial to the Group.

The Chinese economy has been growing rapidly in recent years, while people's purchasing power has increased dramatically. All these offer a favorable operating environment for the Group. The market for miniature acoustic components has been growing rapidly due to increasing demand for mobile phone handsets, MP3 players and consumer handheld devices. The Group remains optimistic about its business in future years.

The Group will continue to emphasize on research and development in order to create new products and platforms customized to meet customer demands and needs. The Group will work with customers to ensure that its components are "designed in". The Group will also work and co-operate with professional elites through its Nanjing technical support center.

Chairman Statement

I would like to take this opportunity to express my heartfelt gratitude to all of the staff of the Group for their dedication and hard work. They made 2005 a year to remember. I would also like to thank my fellow Board members for their invaluable advice during the year. With the continued support of our customers, we can look forward to the Group's continued growth. Finally, our goal is to ensure that we continue to do well for our shareholders.

Koh Boon Hwee
Chairman

6th April, 2006

Management Discussion and Analysis

The Middle is Mr. Benjamin Zhengmin Pan
Executive Director and Chief Executive Officer

The Left is Mr. Du Kuang-Yang
Chief Operating Officer

The Right is Mr. Richard Peng-Fei Chu
Chief Financial Officer

OVERVIEW

We are one of the leading manufacturers focusing on the design and production of miniature acoustic components, which are used in mobile phone handsets, MP3 players and other consumer handheld devices. We believe our research, product development and engineering capabilities, combined with our vertical integration model, have continued to enable us to work with our customers on advanced miniature acoustic components that can meet their requirements for performance, quality and cost.

For the year ended 31st December, 2005, the Group recorded sales of RMB1,073.7 million, representing a 71.3% growth over the same period in 2004, and recorded net profit of RMB332.9 million, representing a 68.4% growth over the same period in 2004.

MARKET REVIEW

The year of 2005 saw another year of growth for most of our key end markets, especially the global handset industry. Due to the increased popularity of MP3 players among consumers, leading handset OEMs have increasingly incorporated digital music capability in their handsets. Moreover, leading handset OEMs have introduced more models of smaller and thinner phones to the market, and increasingly adopted SMD in their production. As a leading acoustic manufacturer for the global handset industry, the Group was benefiting not only from the unit growth in the global handset industry but also from the above trends towards smaller and thinner phones and SMD.

Management Discussion and Analysis

For the year of 2005, our customers primarily consisted of various participants in the mobile phone handset industry value chain (such as module suppliers, design houses, EMS providers, ODMs and OEMs), as well as OEMs in the consumer electronics and other industries. We were able to increase our sales to most of our key handset customers, especially for racetrack speakers and receivers as well as our newly introduced speaker modules.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31st December, 2005 was RMB1,073.7 million, representing an increase of 71.3% from RMB626.8 million for the previous year. Gross profit was RMB527.7 million, representing an increase of 69.6% from RMB311.1 million for the previous year. Net profit was RMB332.9 million, representing an increase of 68.4% from RMB197.7 million for the previous year. Basic earnings per share was RMB31.05 cents, representing an increase of 50.1% from RMB20.68 cents for the previous year.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the aggregate of short-term bank loans, dividends payable and non-current liabilities by the total assets, as at 31st December, 2005 was 0.8% compared to 49.2% as at 31st December, 2004.

INDEBTEDNESS

As at 31st December, 2005, the Group had RMB15.0 million short-term bank loans. Redeemable convertible preferred shares in the value of RMB219.8 million as at 31st December, 2004 were fully converted into ordinary shares of the Company during the year of 2005.

CONTINGENT LIABILITIES

As at 31st December, 2005, the Group had no material contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2005, the Group had RMB939.0 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB18.8 million. The Group had no long-term debt as at 31st December, 2005. The management believes 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 need of the Group for capital.

FOREIGN EXCHANGE

Majority of the Group's sales, purchases and operating expenses were denominated in RMB, U.S. dollars, Japanese yen, Hong Kong dollars and Euros. The Board believes that the Group has been and will continue to be exposed to foreign currency exchange risk but they do not expect future currency fluctuations to have a material impact on the Group's operations. The Group does not have a formal hedging policy and no instrument has been applied for hedging purposes during the year ended 31st December, 2005.

CHARGES ON GROUP ASSETS

As at 31st December, 2005, none of the Group's assets was charged to any financial institution.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Other than the Group Reorganisation as described in the prospectus of the Company dated 28th July, 2005 (the "Prospectus"), the Group had no material acquisitions and disposals during the year ended 31st December, 2005.

FUTURE PLANS FOR MATERIAL INVESTMENTS

During the year ended 31st December, 2005, the Group has not made any material investments other than those set out in Appendix V of the Prospectus. The future plan for investments of the Group has been disclosed in the Prospectus.

EMPLOYEE INFORMATION

As at 31st December, 2005, the Group employed 7,675 permanent employees. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises the work performance of its staff.

Employee remuneration includes salaries, allowances, social insurance or mandatory pension fund. As required by the relevant regulations in the People's Republic of China ("PRC" or "China"), the Group participated in the social insurance schemes operated by the relevant local government authorities. The Group also participated in the mandatory pension fund and social insurance schemes for its employees in Hong Kong, the United States of America ("USA") and Europe.

PROSPECTS

With the increased demand for miniaturation and digital music capability in mobile phone handsets and portable consumer electronic products, more and more new handset models are expected to be introduced incorporating more value added acoustic features, which will drive the growth of our products. In addition to handset OEMs, handset ODMs are expected to increasingly use our racetrack speakers and receivers, which will further increase the sales of our racetrack speakers and receivers. Moreover, we will introduce more acoustic products to the market to meet the demand of our customers, which will include SMD and MEMS microphones, SMD receivers, linear and SMD vibrators, stereo headsets and speaker modules with more integrated functions.

DIVIDENDS

The form, frequency and amount of future dividends on the shares of the Company will depend on the Group's earnings and financial position, results of operations, capital needs, plans for expansion and other factors as the Board may deem appropriate. The Board may recommend the amount of dividends to be declared and the declaration and payments of dividends will be determined by the shareholders in general meeting. The amount of dividends to be declared shall not be in excess of the amount recommended by the Board.

DEFINITIONS

"EMS"	Electronic Manufacturing Services
"MEMS microphone"	Micro Electro Mechanical Systems ("MEMS") microphones are compact, light weight and based on MEMS technology. MEMS is based on semiconductor technology which uses silicon to create pathways for electricity within components
"ODM"	Original Design Manufacturer, a company that both designs and manufactures a product for its customers
"OEM"	Original Equipment Manufacturer, the original manufacturer and their designated contract manufacturers
"SMD"	Surface Mount Device which is readily fed into a SMT production line
"SMT"	Surface Mount Technology

EXECUTIVE DIRECTOR

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 37, is an Executive Director and Chief Executive Officer of the Company. Mr. Pan co-founded our Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing our Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing, and other functions including quality assurance, finance and human resources. Mr. Pan has been instrumental in spearheading our Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and Chief Executive Officer of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and developed a number of patents used in the design and manufacturing of our polyphonic speakers, miniature receivers, transducers and Electret Condenser Microphones. Mr. Pan graduated from the 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is Ms. Wu's spouse.

NON-EXECUTIVE DIRECTORS

Ms. Ingrid Chunyuan Wu ("Ms. Wu"), aged 35, is a Non-executive Director of the Company. Ms. Wu co-founded our Group in 1993. In 1996, she co-founded and later became Chief Financial Officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, Changzhou AAC in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as our Chief Operating Officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is Mr. Pan's spouse.

Mr. Yang Dong Shao ("Mr. Shao"), aged 37, has been appointed to our Board of Directors (the "Board") since March 2004. Mr. Shao is currently a managing director of Chengwei Ventures LLC, a venture capital investment firm that focuses on investing in technology-based companies in China. He currently sits on the board of Summit Optical Holdings, Inc., Chengwei AAC Holdings Ltd., Oval Technologies Holdings, Inc. and Winlead Technology Limited. Mr. Shao had previously worked at the Investment Banking Division of Salomon Brothers Inc. Mr. Shao obtained a Bachelor's degree in Economics (*Magna Cum Laude*) in 1993 from Columbia University, where he was elected Phi Beta Kappa. He also attended the Graduate School of Business at Stanford University and earned a Master's degree in Business Administration in 2000.

Dr. Thomas Kalon Ng ("Dr. Ng"), aged 51, has been appointed to our Board since November 2004. Dr. Ng has many years of management and investment experience in the high-technology industry. He is currently the managing director of Granite Global Ventures. He was the founder of Venture TDF in Singapore. Dr. Ng has advised the Government of Singapore in its development of "technopreneurship" and served on its advisory board. Dr. Ng has held senior management positions at Genelabs Diagnostics Pte. Ltd.. Dr. Ng earned a Bachelor's degree of Science in Bacteriology in 1975, a Master's degree of Science in Bacteriology in 1977 and a Doctor's degree in Bacteriology and Biochemistry in 1981 from the University of Wisconsin at Madison in the USA.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 55, is the Chairman of the Company. Mr. Koh has been appointed to our Board since November 2004. Mr. Koh brings with him extensive management experience and leadership. He is currently an executive director of MediaRing Limited, the Executive Chairman, the Chief Executive Officer of Sunningdale Tech Ltd. and the Chairman of DBS Group Holdings Ltd. and DBS Bank Ltd. Mr. Koh is also a director of Temasek Holdings (Pte) Ltd.. Mr. Koh also sits on the board of Agilent Technologies, Inc. Mr. Koh is also the Chairman of the Nanyang Technological University Council and a member of the Singapore Business Federation. Mr. Koh has over 20 years of experience in the IT-related and electronics industries. Mr. Koh was previously Chairman of Singapore Airlines Ltd. (2001–2005), SIA Engineering Company Ltd. (2003–2005), Omni Industries Ltd. (1996–2001), Internet Technology Group Ltd. (2000–2001), the executive chairman of Wuthelam Holdings Pte Limited (1991–2000), and before that Managing Director of Hewlett Packard Singapore (1985–1990), where he started his career in 1977. Mr. Koh graduated from the Imperial College, University of London with a Bachelor's degree (First Class Honours) in Mechanical Engineering. Mr. Koh also holds a Master's degree in Business Administration (Distinction) from Harvard Business School. Mr. Koh was awarded Singapore's Public Service Star by the President of Singapore in 1991 and the Meritorious Service Medal in 1995.

Dr. Dick Mei Chang ("Dr. Chang"), aged 66, has been appointed to our Board since November 2004. Dr. Chang is currently President and Chief Executive Officer at Abago Technologies, a privately held semiconductor company headquartered in the USA and Singapore. Dr. Chang has over 30 years' experience in the development, manufacturing and marketing of semiconductor products. He joined Hewlett-Packard Company ("HP") in 1967 as a member of the technical staff at HP Labs. Over the years, he held several managerial positions within the semiconductor products group of HP. In 1999, the semiconductor products group was spun off HP as part of Agilent Technologies, Inc.. Dr. Chang became senior vice president and general manager of the Semiconductor Products Group of Agilent Technologies, Inc. in 2002. Dr. Chang received a Bachelor's degree in physics from the California Institute of Technology and a Doctor's degree in applied physics from Stanford University.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 42, has been appointed to our Board since April 2005. Mr. Mok is currently a director at Ulmus Investment Limited, which provides investment services to global private equity funds and private investors. With over 19 years' experience in finance, Mr. Mok is a Hong Kong certified public accountant and a chartered accountant in the United Kingdom. Mr. Mok graduated from London School of Economics and Political Science, London University in 1985.

SENIOR MANAGEMENT

Mr. Richard Peng-Fei Chu (朱鵬飛) ("Mr. Chu"), aged 60, is the Chief Financial Officer of the Company. Mr. Chu has over 20 years' experience in finance. Prior to joining our Group, he had been the finance director of Shanghai Viasystems Electronic Manufacturing Service Company Limited from 2002 to

2004. From 2000 to 2002, he was the chief financial officer of Aurora Company (China) as well as China eLabs, a joint venture between Boston Consulting Group, the e-Millenium Two Fund and Shanghai New Margin Venture Capital. From 1997 to 1999, he was the regional controller and finance director for Yunan Ximeliu Aluminium Foil Co. Ltd in Kunming, the PRC, a joint venture between Alumax Inc, and Yunan Metallurgical Group. In March 1999, he joined Montgomery Ward (Hong Kong) Ltd. as the regional controller. He was previously employed by Compaq Computer Corporation in Houston, Texas. From 1980 to 1985, he was the accounting supervisor of Big Three Industrial Gas in Houston, Texas, where he was responsible for the company's reports to the U.S. Securities Exchange Commission. Mr. Chu holds a Master's degree in Science from the University of Houston-Clear Lake in the USA. Mr. Chu joined the Group in April 2004.

Mr. Du Kuang-Yang (杜光洋) ("Mr. Du"), aged 55, is the Chief Operating Officer of the Company. Mr. Du has over 20 years' managerial experience in electronics manufacturing industry. From 2001 to 2005, Mr. Du was vice president of Supply Chain Management of Solectron (Suzhou) Technology Co., Ltd.. From 1988 to 2001, Mr. Du worked for Motorola's various subsidiaries where he was the managing director of components products sector for Motorola's Tianjin subsidiary and general manager of personal communication sector for Motorola's Taiwan subsidiary. Mr. Du obtained a certificate in business administration from the National Taichung Institute of Technology (previously known as 臺灣省立臺中商業專科學校 (Taiwan Provincial School of Commerce of Tai-Chung)) in Taiwan in 1971. Mr. Du joined the Group in March 2005.

Mr. Li Xiang (李翔) ("Mr. Li"), aged 41, is the Senior Vice President of the Company. Mr. Li assists our Chief Executive Officer in forming the business strategy for the Group and in exploring new markets. Mr. Li has over 15 years of experience in sales and marketing. From March 1998 to August 2000, he was head of the international trading department at Kaito Enterprises Corporation. Prior to that, he was head of the international trading department at China National Electronics Import & Export Shenzhen Company from February 1997 to March 1998. Mr. Li obtained a Bachelor's degree in Computer Science from Nankai University in the PRC in 1988. Mr. Li joined the Group in August 2000.

Mr. Zhu Bingke (朱秉科) ("Mr. Zhu"), aged 42, is the Vice President of Acoustic Products Division of the Company. Mr. Zhu assists our Chief Executive Officer and Chief Operating Officer in the overall coordination of projects, operation and management of our Group. He is also a general manager of Changzhou Weililai Electronic Acoustic Device Co., Ltd.. Prior to joining our Group, he was a deputy general manager at Shenzhen Yuanyu Industrial Development Co., Ltd. from 1992 to 1994. Mr. Zhu obtained a Diploma in Electrical Engineering from the Institute of Changzhou Industry Technology (常州工業技術學院) in the PRC in 1984. Mr. Zhu joined the Group in September 1994.

Mr. Jianlin Di (狄建林) ("Mr. Di"), aged 34, is the Vice President of Structural Component Division of the Company. Mr. Di is in charge of our manufacture engineering operation. Mr. Di has over 13 years' experience in tooling and manufacture engineering. He was the General Manager of Changzhou Kaitai

Machinery and Electronics Co., Ltd. from August 1998 to September 2001. Since September 2001, Mr. Di has been the General Manager of Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.. Mr. Di studied tooling design and manufacturing at Jiangsu Changzhou Institute of Radio Industry (常州無線電工業學院) in the PRC.

Mr. Edward Y. Liu (廖勇濤) ("Mr. Liu"), aged 43, is the Vice President of Sales and Marketing of the Company. Mr. Liu is experienced in the electronics sales and marketing industry. Mr. Liu has held senior sales and marketing positions at various electronics companies in the PRC and the USA, such as Solectron Corporation and Flextronics International. Mr. Liu obtained higher diploma in Electronics Engineering from the Hong Kong Polytechnic University in 1985. Mr. Liu joined the Group in May 2005.

Mr. Wu Fengchuen (吳逢春) (Mr. Wu), aged 55, is the Vice President of Quality Assurance of the Company. Mr. Wu is experienced in the electronics manufacturing industry. Mr. Wu was previously employed by McKechnie Vehicle Components, a division of McKechnie Plc, as a plant general manager based in Taiwan. Mr. Wu graduated from the Industrial Engineering Department of Chung Yuan Christian University (私立中原理工學院) in Taiwan in 1973, and earned a Master's degree in Business Administration from the University of Tennessee in the USA, in 1999. Mr. Wu joined the Group in April 2004.

Ms. Zhuang Renyan (莊任豔) ("Ms. Zhuang"), aged 36, is the Secretary to the Board. Ms. Zhuang is in charge of corporate secretarial matters. Prior to joining our Group as Chief Financial Controller in 2001, she was a senior manager at the Shenzhen Pan-China Schinda CPA Firm from January 1995 to August 2001. From June 1997 to May 1998, she underwent an exchange programme at Coopers & Lybrand in Hong Kong. Ms. Zhuang holds a Master's degree in Economics from Shanghai Maritime University (上海海事大學). Ms. Zhuang also obtained a CICPA Securities and Futures qualification in China (註冊會計師證券相關業務資格) and is a member of the China Institute of Certified Public Accountants (中國註冊會計師協會). Ms. Zhuang joined the Group in 2001.

Ms. Lau Sim ("Ms. Lau"), aged 29, is the Company Secretary and Qualified Accountant of the Company. Ms. Lau is both a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Lau holds a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University. Before joining the Company, Ms. Lau had worked in an international accounting firm. She has about six years of experience in auditing and accounting. Ms. Lau joined the Group in April 2005.

The directors present their first report and the audited financial statements for the year ended 31st December, 2005.

CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company in the Cayman Islands with limited liability on 4th December, 2003.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the Group. The Company's shares were listed on the Stock Exchange on 9th August, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 28 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the share premium account and the contributed surplus less deficit which amounted to RMB904,504,000. Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the period and up to the date of this report were:

Executive director:

Benjamin Zhengmin Pan
(Chief Executive Officer)

Non-executive directors:

Ingrid Chunyuan Wu
Yang Dong Shao
Thomas Kalon Ng

Independent non-executive directors:

Koh Boon Hwee *(Chairman)*
Dick Mei Chang
Mok Joe Kuen Richard

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Benjamin Zhengmin Pan ("Mr. Pan"), Ms. Ingrid Chunyuan Wu ("Ms. Wu"), Mr. Yang Dong Shao, Dr. Thomas Kalon Ng, Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Mr. Mok Joe Kuen Richard will hold their office until the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 87 of the Company's Articles of Association, the directors of the Company shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election.

Mr. Pan has entered into a service agreement with the Company for a term of three years from 15th July, 2005, subject to termination by either party giving no less than 60 days' prior notice in writing or 60 days' payment in lieu of notice.

Each of Ms. Wu, Mr. Yang Dong Shao, Dr. Thomas Kalon Ng, Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Mr. Mok Joe Kuen Richard has entered into a letter of appointment with the Company for a term of two years from 16th April, 2005, subject to termination by either party giving no less than one month's prior notice in writing or such shorter period as both parties may agree.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES AND UNDERLYING SHARES

As at 31st December, 2005, the beneficial interests of the directors and chief executives in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 such provisions of the SFO and pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

Name of director/chief executive	Personal interests	Corporate interests	Other interests	Total number of shares	Percentage of the Company's issued share capital
Mr. Pan(1)	218,520,634	49,645,440	83,877,430	352,043,504	28.21%
Ms. Wu(2)	209,828,594	—	83,877,430	293,706,024	23.53%
Mr. Yang Dong Shao(3)	—	51,215,988	—	51,215,988	4.10%
Mr. Koh Boon Hwee	1,307,562	—	—	1,307,562	0.10%
Mr. Li Xiang	61,941,887	—	—	61,941,887	4.96%

Notes:

(1) Mr. Pan beneficially owns 218,520,634 shares. Mr. Pan is also deemed or taken to be interested in the following shares:

(i) 49,645,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan;

(ii) 75,220,434 shares which are deemed to be beneficially owned by Mr. Pan, as trustee of the Benjamin Zhengmin Pan 2005 Annuity Trust dated 18th June, 2005; and

(iii) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(2) Ms. Wu beneficially owns 209,828,594 shares. Ms. Wu is also deemed or taken to be interested in the following shares:

(i) 75,220,434 shares which are deemed to be beneficially owned by Ms. Wu, as trustee of the Ingrid Chunyuan Wu 2005 Annuity Trust dated 18th June, 2005; and

(ii) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(3) Mr. Yang Dong Shao has 50% management control over any decisions made by Chengwei Ventures Shanghai LLC in connection with the investment made through its controlled corporations in the Company and therefore, Mr. Yang Dong Shao is deemed or taken to be interested in the 51,215,988 shares which are beneficially owned by Chengwei AAC Holdings Ltd.

Other than as disclosed above, as at 31st December, 2005, none of the directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEME

Details of the Company's share option scheme adopted on 15th July, 2005 are set out in note 23 to the financial statements. The Company has not granted any option under the share option scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the year, the Group rented certain properties located at Nanyou Tianan Industrial Park, Dengliang Road, Nanshan District, Shenzhen, from Ms. Wu and the rentals paid for those properties amounted to RMB2,511,000, out of which RMB1,833,000 are in respect of non-exempt connected transactions. The rented properties in respect of the non-exempt connected transactions are used as part of the places of business by the Company's two wholly owned subsidiaries, namely AAC Acoustic Technologies (Shenzhen) Co., Ltd and Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd. On July 4, 2005, the term of each of the lease agreements in respect of these properties was extended to 31st December, 2009. The parties to each of these lease agreements also agreed to adjust the rent payable each year by no more than 5% (either upwards or downwards) from the preceding year to reflect the then prevailing market conditions. There has been no adjustment in the rent payable in the year of 2005.

The independent non-executive directors confirmed that the connected transactions have been entered into by the Group in the ordinary course of its business on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of interests and short positions kept by the Company under section 336 of the SFO showed that the following persons held interests or short positions in the Company's shares:

Name of Shareholder	Number of Shares	Percentage of the Company's issued share capital
Mr. Pan(1)	637,092,532(L)	51.05%(L)
Ms. Wu(2)	637,092,532(L)	51.05%(L)
Credit Suisse Group(3)	93,600,000(L)	7.50%(L)
	93,600,000(S)	7.50%(S)

(1) Mr. Pan beneficially owns 218,520,634 shares. Mr. Pan is also deemed or taken to be interested in the following shares:

(i) 49,645,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan;

(ii) 285,049,028 shares which are beneficially owned by Ms. Wu as Mr. Pan is Ms. Wu's husband;

(iii) 75,220,434 shares which are deemed to be beneficially owned by Mr. Pan, as trustee of the Benjamin Zhengmin Pan 2005 Annuity Trust dated 18th June, 2005; and

(iv) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(2) Ms. Wu beneficially owns 209,828,594 shares. Ms. Wu is also deemed or taken to be interested in the following shares:

(i) 75,220,434 shares which are deemed to be beneficially owned by Ms. Wu as trustee of the Ingrid Chunyuan Wu 2005 Annuity Trust dated 18th June, 2005;

(ii) 343,386,508 shares which are beneficially owned by Mr. Pan as Ms. Wu is Mr. Pan's wife; and

(iii) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(3) By virtue of Credit Suisse Group's 100% interest in Credit Suisse, Credit Suisse's 100% interest in Credit Suisse First Boston (International) Holdings AG, Credit Suisse First Boston (International) Holdings AG's 100% interest in Credit Suisse First Boston International (Guernsey) Limited and 70.2% interest in Credit Suisse First Boston (Hong Kong) Limited; and Credit Suisse First Boston International (Guernsey) Limited also owns 29.8% interest in Credit Suisse First Boston (Hong Kong) Limited, each of Credit Suisse Group, Credit Suisse and Credit Suisse First Boston (International) Holdings AG is deemed to be interested in 93,600,000 shares in the Company directly held by Credit Suisse First Boston (Hong Kong) Limited.

Save as the interests and short positions disclosed above, as at 31st December, 2005, so far as was known to any director of the Company, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the period from 9th August, 2005 to 31st December, 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 56.2% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 28.2% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 36.1% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 12.6% of the Group's total purchases.

None of the directors, their associates or any shareholders, which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the share capital of the five largest customers or suppliers of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float from 9th August, 2005 to 31st December, 2005.

CHARITABLE DONATIONS

During the year, the Group made charitable and other donations totalling RMB1,053,000.

AUDITORS

These financial statements were audited by Messrs. Deloitte Touche Tohmatsu since its incorporation. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors of the Company.

By order of the Board

Koh Boon Hwee
Chairman

6th April, 2006

In the opinion of the Directors, the Company has complied with the code provision of the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company has adopted codes of conduct regarding securities transactions by the directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules and the directors have fully complied with it.

On specific enquiries made, all the directors have confirmed that, in respect of the period from the date of the Listing to the date of this report, 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.

BOARD OF DIRECTORS

The Board of Directors ("the Board") comprises of one executive director, three non-executive directors and three independent non-executive directors.

The operations of the Company are managed under the direction of the Board, within the framework set by the CG Code and related chapters of the Listing Rules as adopted by the Board.

The Board represents the Company and is accountable to the shareholders of the Company. The Board's responsibilities include the responsibility to regulate and evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities also include overseeing the structure and composition of the Company's top management and monitoring legal compliance, the management of risks related to the Company's operations. The directors acknowledged their responsibility for preparing the accounts of the Company.

The directors' biographical information is set out in the "Biographies of Directors and Senior Management" section on pages 9 to 10 of this report.

Appointment of independent non-executive directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

The term of appointment of the directors is set out in the "Directors' Report" section on page 14 of this report.

Frequency of Meetings and Attendance

Board meetings are held at least 4 times a year and the Board meets as and when required. During the financial year ended 31st December, 2005, the Board convened a total of 5 meetings and the attendances of the directors at these board meetings are as follows:

Directors	Number of attendance
Mr. Benjamin Zhengmin Pan	5/5
Ms. Ingrid Chunyuan Wu	5/5
Mr. Yang Dong Shao	5/5
Dr. Thomas Kalon Ng	4/5
Mr. Koh Boon Hwee	5/5
Dr. Dick Mei Chang	5/5
Mr. Mok Joe Kuen Richard	5/5

The directors received details of agenda items for decision and minutes of board meetings in advance of each board meeting.

Board minutes are kept by the Company Secretary of the Company and are sent to the directors for records. They are also open for inspection by the directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. The chairman and CEO are taken up by different persons, namely Mr. Koh Boon Hwee and Mr. Benjamin Zhengmin Pan respectively.

AUDIT COMMITTEE

In April 2005, the Company established an Audit Committee which comprises of two independent non-executive directors, namely Mr. Mok Joe Kuen Richard and Mr. Koh Boon Hwee and a non-executive director, Ms. Ingrid Chunyuan Wu. Mr. Mok Joe Kuen Richard is the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and supervise the financial reporting process and effective internal control system of the Group. The Audit Committee reviewed the quarterly financial results, as well as the interim report of the Company in the year of 2005.

Frequency of Meetings and Attendance

The Audit Committee convened 3 times for the year ended 31st December, 2005 under review and details of the attendance of its meetings are as follows:

Directors	Number of attendance
Mr. Mok Joe Kuen Richard	3/3
Mr. Koh Boon Hwee	2/3
Ms. Ingrid Chunyuan Wu	3/3

NOMINATION COMMITTEE

The Board has established a Nomination Committee on 16th April, 2005 in compliance with the CG Code. Members of the Nomination Committee are Dr. Dick Mei Chang, Mr. Mok Joe Kuen Richard and Mr.Yang Dong Shao. Dr. Dick Mei Chang is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the appointment and re-appointment of directors, and ensuring the proper and transparent procedures for the appointment and reappointment of directors.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee on 16th April, 2005 in compliance with the CG Code. Members of the Remuneration Committee are Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Dr. Thomas Kalon Ng. Mr. Koh Boon Hwee is the chairman of the Remuneration Committee.

The responsibilities of the Remuneration Committee include advising the Board in relation to the remuneration structure and compensation of the Company's executive directors and executives, as well as representing the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts.

Emolument policy

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees. Details of the share option scheme are set out in note 23 to the financial statements.

Frequency of Meetings and Attendance

The Remuneration Committee convened one time for the year ended 31st December, 2005 under review and details of the attendance of its meeting are as follows:

Directors	Number of attendance
Mr. Koh Boon Hwee	1/1
Dr. Dick Mei Chang	1/1
Dr. Thomas Kalon Ng	1/1

Auditors' Report

Deloitte.
德勤

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

We have audited the consolidated financial statements on pages 25 to 63 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6th April, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Turnover		**1,073,744**	626,847
Cost of goods sold		**(546,010)**	(315,714)
Gross profit		**527,734**	311,133
Other income		**18,966**	8,433
Distribution and selling expenses		**(62,403)**	(24,735)
Administrative expenses		**(123,078)**	(61,008)
Finance costs	*6*	**(7,627)**	(5,996)
Profit before taxation	*7*	**353,592**	227,827
Taxation	*9*	**(20,271)**	(29,484)
Profit for the year		**333,321**	198,343
Attributable to:			
Equity holders of the Company		**332,859**	197,653
Minority interests		**462**	690
		333,321	198,343
Dividends	*10*	**—**	114,657
Earnings per share — Basic	*11*	**31.05 cents**	20.68 cents

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**342,127**	211,939
Land use rights	*13*	**7,816**	12,586
Deposits made on acquisition of property, plant and equipment		**19,361**	13,560
		369,304	238,085
Current assets			
Inventories	*14*	**116,237**	80,545
Trade and other receivables	*15*	**347,625**	253,532
Amounts due from related companies	*16*	**81**	2,324
Taxation recoverable		**899**	357
Restricted bank deposits	*17*	**18,805**	4,145
Bank balances and cash	*17*	**938,970**	246,321
		1,422,617	587,224
Current liabilities			
Trade and other payables	*18*	**219,288**	112,295
Amounts due to related companies	*19*	**1,936**	29,936
Dividends payable		**—**	103,301
Taxation payable		**17,254**	17,490
Short-term bank loans	*20*	**15,000**	82,742
		253,478	345,764
Net current assets		**1,169,139**	241,460

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
Total assets less current liabilities		**1,538,443**	479,545
Non-current liabilities			
Redeemable convertible preferred shares	*21*	**—**	219,750
Net assets		**1,538,443**	259,795
Capital and reserves			
Share capital	*22*	**101,342**	37,780
Reserves		**1,437,101**	219,014
Equity attributable to equity holders of the Company		**1,538,443**	256,794
Minority interests		**—**	3,001
Total equity		**1,538,443**	259,795

The consolidated financial statements on pages 25 to 63 were approved and authorised for issue by the Board of Directors on 6th April, 2006 and are signed on its behalf by:

Benjamin Zhengmin Pan	**Mok Joe Kuen Richard**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2004	75,845	—	—	(664)	2,583	22,917	171,655	272,336	32,627	304,963
Exchange differences arising from translation of financial statements of overseas operations, representing net expense recognised in equity	—	—	—	(449)	—	—	—	(449)	—	(449)
Profit for the year	—	—	—	—	—	—	197,653	197,653	690	198,343
Total recognised income and expenses for the year	—	—	—	(449)	—	—	197,653	197,204	690	197,894
Capital contributions	8,277	—	—	—	—	—	—	8,277	—	8,277
Arising on group reorganisation	(46,756)	—	(5,769)	9	239	1,604	(56,107)	(106,780)	(30,316)	(137,096)
Issue of shares	414	—	—	—	—	—	—	414	—	414
Transfers	—	—	—	—	—	7,417	(7,417)	—	—	—
Dividends	—	—	—	—	—	—	(114,657)	(114,657)	—	(114,657)
At 31st December, 2004	37,780	—	(5,769)	(1,104)	2,822	31,938	191,127	256,794	3,001	259,795
Exchange differences arising from translation of financial statements of overseas operations, representing net income recognised in equity	—	—	—	1,007	—	—	—	1,007	—	1,007
Profit for the year	—	—	—	—	—	—	332,859	332,859	462	333,321
Total recognised income for the year	—	—	—	1,007	—	—	332,859	333,866	462	334,328
Arising on group reorganisation	(30,298)	—	(1,700)	—	—	21	641	(31,336)	(3,463)	(34,799)
Conversion of preferred shares	1,443	224,739	—	—	—	—	—	226,182	—	226,182
Issue of shares on capitalisation issue	70,162	(70,162)	—	—	—	—	—	—	—	—
Issue of shares	22,255	760,125	—	—	—	—	—	782,380	—	782,380
Expense incurred in connection with the issue of shares	—	(29,443)	—	—	—	—	—	(29,443)	—	(29,443)
Capitalisation of retained profits	—	—	—	—	84,423	—	(84,423)	—	—	—
At 31st December, 2005	101,342	885,259	(7,469)	(97)	87,245	31,959	440,204	1,538,443	—	1,538,443

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

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

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

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before taxation	**353,592**	227,827
Adjustments for:		
Interest income	**(9,253)**	(552)
Interest expenses	**7,627**	5,996
Depreciation	**31,374**	23,269
Expenses charged to income statement in connection with the issue of shares	**18,550**	—
Operating lease rentals in respect of land use rights	**692**	336
Loss on disposal of property, plant and equipment	**212**	31
Allowance for bad and doubtful debts	**396**	—
Effect of foreign exchange rate changes on inter-company balances	**(1,155)**	(463)
Operating cash flows before movements in working capital	**402,035**	256,444
Increase in inventories	**(35,799)**	(13,810)
Increase in trade and other receivables	**(92,208)**	(91,793)
Increase (decrease) in trade and other payables	**114,607**	(1,169)
Cash from operations	**388,635**	149,672
Taxation paid	**(21,059)**	(20,163)
Net cash from operating activities	**367,576**	129,509
Investing activities		
Interest received	**9,253**	552
Purchase of property, plant and equipment	**(149,637)**	(90,500)
Proceeds from disposal of property, plant and equipment	**1,396**	5,253
Prepaid rentals on land use rights	**—**	(9,710)
Deposits paid on acquisition of property, plant and equipment	**(19,361)**	(13,560)
Repayment from (advances made to) related companies	**2,222**	(2,596)
(Increase) decrease in restricted bank deposits	**(14,660)**	531
Net cash used in investing activities	**(170,787)**	(110,030)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 RMB'000	2004 RMB'000
Financing activities		
Interest paid	**(3,736)**	(3,455)
Dividends paid	**(103,301)**	(30,799)
Proceeds from issue of shares	**782,380**	414
Expense paid in connection with the issue of shares	**(47,993)**	—
Proceeds from issue of redeemable convertible preferred shares	**—**	219,750
Consideration paid pursuant to the group reorganisation	**(34,799)**	(107,034)
Capital contributions	**—**	8,277
(Repayment to) borrowings from related companies	**(28,000)**	25,060
Bank loans raised	**15,000**	158,786
Repayment of bank loans	**(82,742)**	(152,464)
Net cash from financing activities	**496,809**	118,535
Net increase in cash and cash equivalents	**693,598**	138,014
Cash and cash equivalents at 1st January	**246,321**	108,219
Effect of foreign exchange rate changes	**(949)**	88
Cash and cash equivalents at 31st December	**938,970**	246,321
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**938,970**	246,321

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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. The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 28. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements for the year ended 31st December, 2005 have been prepared in a manner consistent with pooling of interest.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 9th August, 2005. Details of the Group Reorganisation are set out in Appendix V of the prospectus of the Company dated 28th July, 2005 (the "Prospectus").

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

2. POTENTIAL IMPACT ARISING FROM RECENTLY ISSUED ACCOUNTING STANDARDS

In 2005, the following new and revised International Accounting Standards ("IAS"s), International Financial Reporting Standards ("IFRS"s) and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB have been issued but not yet effective. The directors of the Company anticipate that the application of these Standards and Interpretations in the future periods will have no material impact on the financial statements of the Group.

IAS 1 (Amendment)	Capital disclosures[1]
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
IAS 21 (Amendment)	Net investment in a foreign operation[2]
IAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions[2]
IAS 39 (Amendment)	The fair value option[2]
IAS 39 and IFRS 4 (Amendment)	Financial guarantee contracts[2]
IFRS 6	Exploration for and evaluation of mineral resources[1]
IFRS 7	Financial instruments: Disclosures[1]
IFRIC 4	Determining whether an arrangement contains a lease[2]
IFRIC 5	Right to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
IFRIC 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[4]
IFRIC 8	Scope of IFRS 2[5]
IFRIC 9	Reassessment of embedded derivatives[6]

1 Effective for annual periods beginning on or after 1st January, 2007.

2 Effective for annual periods beginning on or after 1st January, 2006.

3 Effective for annual periods beginning on or after 1st December, 2005.

4 Effective for annual periods beginning on or after 1st March, 2006.

5 Effective for annual periods beginning on or after 1st May, 2006.

6 Effective for annual periods beginning on or after 1st June, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values, and in accordance with IFRSs. The Group has early adopted all the new and revised standards that are effective for accounting periods beginning on or after 1st January, 2005 in 2004. The principal accounting policies adopted are as follows:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Revenue is measured at the fair value of consideration received or receivable less returns.

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects including borrowing costs capitalised. Construction in progress is not depreciated until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

The cost of buildings is depreciated over 20 years using the straight line method.

The cost of leasehold improvements is depreciated over 10 years or the shorter of the lease, using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Electronic equipment and furniture	20%
Motor vehicles	20%
Plant and machinery	10%

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Land use rights

Payment for obtaining land use rights is considered as operating lease payment and charged to the income statement over the period of the right using the straight line method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities generally include other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below.

Other financial liabilities

Other financial liabilities including short-term bank loans, trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest rate method.

Redeemable convertible preferred shares

Redeemable convertible preferred shares issued by the Group, may be converted into the ordinary shares of the Company but the conversion price for the redeemable convertible preferred shares is subject to adjustments, thus cannot be converted into a fixed number of ordinary shares of the Company. The redeemable convertible preferred shares thus, contain both liability component and an embedded call option which is not closely related to the host contract and this is required to be separately accounted as derivative under IAS 39.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the redeemable convertible preferred shares and the fair value assigned to the liability component represents the embedded call option.

In subsequent periods, the liability component of the redeemable convertible preferred shares is carried at amortised cost using the effective interest method.

Derivatives

Derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held for trading financial assets or financial liabilities, changes in fair value of the derivatives are recognised directly in the income statement.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as 'other income'.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB, which is the functional currency of the Company, at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the period of the respective leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, bank balances and cash, trade payables, and short-term bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on an effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's financial assets are trade and other receivables and bank balances and cash, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, the management of the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated to a small number of debtors. However management considers, based on the strong financial background and good creditability of debtors, there are no significant credit risk.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Business segments

The Group's operations are regarded as a single segment, engaged in the manufacture and sales of acoustic related products.

Geographical segments

The Group's operations are located in the United States of America ("USA"), Asia and Europe.

The following table provides an analysis of the Group's turnover by location of customers, irrespective of the origin of the goods:

	2005	2004
	RMB'000	RMB'000
Turnover		
— USA	**375,625**	224,683
— Greater China	**522,436**	301,467
— Asia (excluding Greater China)	**92,765**	69,730
— Europe	**82,918**	30,967
	1,073,744	626,847

	2005	2004
	RMB'000	RMB'000
Results:		
Profit from operations		
— USA	**141,978**	91,734
— Greater China	**162,388**	115,325
— Asia (excluding Greater China)	**29,629**	19,732
— Europe	**27,224**	7,032
	361,219	233,823
Finance costs	**(7,627)**	(5,996)
Profit before taxation	**353,592**	227,827
Taxation	**(20,271)**	(29,484)
Profit for the year	**333,321**	198,343

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following is an analysis of the Group's carrying amount of segment assets and liabilities analysed by the location of customers:

	2005	2004
	RMB'000	RMB'000
Segment assets		
— USA	**303,203**	263,245
— Greater China	**394,199**	434,288
— Asia (excluding Greater China)	**71,276**	95,288
— Europe	**64,569**	32,488
	833,247	825,309
Unallocated	**958,674**	—
	1,791,921	825,309
Segment liabilities		
— USA	**72,746**	123,933
— Greater China	**115,189**	166,287
— Asia (excluding Greater China)	**16,401**	38,463
— Europe	**16,888**	17,081
	221,224	345,764
Unallocated	**32,254**	219,750
	253,478	565,514

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information

	2005 **RMB'000**	2004 RMB'000
Capital additions		
— USA	**51,420**	35,739
— Greater China	**83,103**	47,953
— Asia (excluding Greater China)	**12,322**	11,092
— Europe	**16,352**	4,925
	163,197	99,709
Depreciation		
— USA	**8,986**	8,340
— Greater China	**17,743**	11,191
— Asia (excluding Greater China)	**2,176**	2,588
— Europe	**2,469**	1,150
	31,374	23,269

The goods sold to various geographical markets were principally produced from the same production facilities located in Mainland China (the "PRC"), therefore, analysis of assets and liabilities by location is not presented.

6. FINANCE COSTS

	2005 **RMB'000**	2004 RMB'000
Interest on		
— bank borrowings wholly repayable within five years	**(3,873)**	(3,455)
— redeemable convertible preferred shares	**(3,891)**	(2,541)
	(7,764)	(5,996)
Less: Interest capitalised in construction in progress	**137**	—
	(7,627)	(5,996)

7. PROFIT BEFORE TAXATION

	2005 **RMB'000**	2004 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 8)*	**2,505**	2,237
Other staff's retirement benefits scheme contributions	**11,188**	6,566
Other staff costs	**188,934**	107,921
Total staff costs	**202,627**	116,724
Less: Staff costs included in research and development costs	**(13,403)**	(6,235)
	189,224	110,489
Depreciation	**31,374**	23,269
Less: Depreciation included in research and development costs	**(1,779)**	(1,267)
	29,595	22,002
Auditors' remuneration	**1,579**	1,524
Loss on disposal of property, plant and equipment	**212**	31
Operating lease rentals in respect of		
— equipment	**200**	1,000
— building premises	**11,260**	6,416
— land use rights	**692**	336
Research and development costs	**26,189**	13,862
and after crediting:		
Government subsidies*	**5,872**	4,852
Interest income	**9,253**	552

* The amount represents the incentive subsidies granted by the PRC local authorities to the Group.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Fees RMB'000	Salaries and other benefits RMB'000	Bonus RMB'000	Total directors' emoluments RMB'000
Year ended December 31, 2005				
Name of director				
Mr. Benjamin Zhengmin Pan	—	1,731	—	1,731
Ms. Ingrid Chunyuan Wu	116	—	—	116
Mr. Yang Dong Shao	100	—	—	100
Dr. Thomas Kalon Ng	100	—	—	100
Mr. Koh Boon Hwee	174	—	—	174
Dr. Dick Mei Chang	131	—	—	131
Mr. Mok Joe Kuen Richard	153	—	—	153
	774	1,731	—	2,505
Year ended December 31, 2004				
Name of director				
Mr. Benjamin Zhengmin Pan	—	1,241	24	1,265
Ms. Ingrid Chunyuan Wu	—	972	—	972
Mr. Yang Dong Shao	—	—	—	—
Dr. Thomas Kalon Ng	—	—	—	—
Mr. Koh Boon Hwee	—	—	—	—
Dr. Dick Mei Chang	—	—	—	—
	—	2,213	24	2,237

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals included one (2004: two) director(s), details of whose emoluments are set out above. The emoluments of the remaining four (2004: three) highest paid individuals are as follows:

	2005	2004
	RMB'000	RMB'000
Employees		
— basic salaries and allowances	**4,523**	2,775
— bonus	**6,993**	—
— retirement benefits scheme contributions	**46**	—
	11,562	2,775

The emoluments were within the following bands:

	Number of employees	
	2005	2004
Up to RMB1,000,000	**—**	2
RMB1,000,001 to RMB1,500,000	**—**	1
RMB1,500,001 to RMB2,000,000	**1**	—
RMB2,500,001 to RMB3,000,000	**1**	—
RMB3,000,001 to RMB3,500,000	**1**	—
RMB3,500,001 to RMB4,000,000	**1**	—

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as compensation for loss of office. None of the directors has waived any emoluments during the year.

9. TAXATION

	2005 **RMB'000**	2004 RMB'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	**(1,859)**	(707)
PRC income tax	**(18,992)**	(28,770)
Overseas taxation	**580**	(7)
	(20,271)	(29,484)

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

In addition, certain PRC subsidiaries have obtained foreign investment product export oriented enterprise certificates. Accordingly, these PRC subsidiaries are entitled to a 50% relief from PRC income tax.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

9. TAXATION (Continued)

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

	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**353,592**		227,827	
Tax at the applicable income tax rate	**(84,862)**	**(24.0)**	(54,678)	(24.0)
Tax effect of income not taxable for tax purposes	**1,455**	**0.4**	2,382	1.0
Tax effect of expenses not deductible for tax purposes	**(8,052)**	**(2.3)**	(2,658)	(1.1)
Income tax at concessionary rate	**70,947**	**20.1**	25,672	11.3
Effect of different tax rates of subsidiaries operating in other jurisdictions	**229**	**0.1**	261	0.1
Others	**12**	**—**	(463)	(0.2)
Tax charge and effective tax rate for the year	**(20,271)**	**(5.7)**	(29,484)	(12.9)

The PRC Enterprise Income Tax rate of 24% is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

10. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. However, in 2004, the following companies declared dividends to their then shareholders or owners prior to the Group Reorganisation:

Name of subsidiary	**2005** **RMB'000**	2004 RMB'000
常州美歐電子有限公司 (American Audio Components (Changzhou) Co., Ltd.)	—	95,754
常州開泰機電製造有限公司 (Changzhou Kaitai Machinery and Electronics Co., Ltd.)	—	6,555
常州威利來電子音響器件有限公司 (Changzhou Weililai Electronic Acoustic Device Co., Ltd.)	—	10,872
YEC Electronics Limited	—	1,476
	—	114,657

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2005 is based on the profit for the year attributable to equity holders of the Company of RMB332,859,000 (2004: RMB197,653,000) and on the weighted average number of ordinary shares of 1,071,998,107 (2004: 955,996,860) shares in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue, as more fully described in Appendix V of the Prospectus, have been effective on 1st January, 2004.

No diluted earnings per share is presented for both years, as the conversion of redeemable convertible preferred shares would result in an increase in earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Electronic equipment and furniture	Leasehold improvements	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1st January, 2004	10,802	38,379	1,177	4,282	114,466	10,377	179,483
Currency realignment	—	33	—	—	—	—	33
Additions	218	11,775	80	588	62,096	24,952	99,709
Disposals	(194)	(2,312)	—	—	(1,949)	(2,140)	(6,595)
Transfers	26,404	124	—	572	1,963	(29,063)	—
At 31st December, 2004	37,230	47,999	1,257	5,442	176,576	4,126	272,630
Currency realignment	—	(54)	(6)	—	—	—	(60)
Additions	3,067	19,352	110	2,342	102,008	36,318	163,197
Disposals	(136)	(5,364)	—	(573)	(5,727)	(89)	(11,889)
Transfers	383	5,688	—	1,476	7,695	(15,242)	—
At 31st December, 2005	40,544	67,621	1,361	8,687	280,552	25,113	423,878
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2004	1,181	14,282	365	1,801	21,095	—	38,724
Currency realignment	—	9	—	—	—	—	9
Provided for the year	1,137	7,432	222	647	13,831	—	23,269
Eliminated on disposals	(10)	(668)	—	—	(633)	—	(1,311)
At 31st December, 2004	2,308	21,055	587	2,448	34,293	—	60,691
Currency realignment	—	(31)	(2)	—	—	—	(33)
Provided for the year	1,757	8,880	227	930	19,580	—	31,374
Eliminated on disposals	(136)	(5,014)	—	(265)	(4,866)	—	(10,281)
At 31st December, 2005	3,929	24,890	812	3,113	49,007	—	81,751
NET BOOK VALUES							
At 31st December, 2005	36,615	42,731	549	5,574	231,545	25,113	342,127
At 31st December, 2004	34,922	26,944	670	2,994	142,283	4,126	211,939

The Group's property interests which are situated in the PRC are held under medium-term land use rights.

Bank interest of RMB137,000 (2004: Nil) was capitalised under construction in progress.

13. LAND USE RIGHTS

	2005 RMB'000	2004 RMB'000
CARRYING VALUE		
At 1st January	**12,586**	3,212
Additions	**—**	9,710
Revision of original cost	**(4,078)**	—
Released to income statement	**(692)**	(336)
At 31st December	**7,816**	12,586

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

14. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**51,274**	37,042
Work in progress	**22,187**	14,928
Finished goods	**42,776**	28,575
	116,237	80,545

15. TRADE AND OTHER RECEIVABLES

	2005 RMB'000	2004 RMB'000
Trade receivables	**309,423**	208,091
Bank acceptance bills	**5,317**	25,137
	314,740	233,228
Advanced payment to suppliers	**4,627**	5,696
Government subsidies receivable	**—**	4,530
Amounts due from directors	**—**	15
Other receivables	**28,258**	10,063
	347,625	253,532

15. TRADE AND OTHER RECEIVABLES (Continued)

Payment terms with customers are mainly on credit. Invoices are normally payable from 45 days to 120 days of issuance. The Group accepts bank acceptance bills with maturities ranging from 30 to 90 days at the end of the credit terms in lieu of payment. The following is an aging analysis of trade receivables at the balance sheet date:

	2005	2004
	RMB'000	RMB'000
Age		
Not yet due	**288,809**	229,872
Overdue 0–90 days	**25,668**	2,866
Overdue 91–180 days	**67**	1,185
Overdue over 181 days	**1,426**	139
	315,970	234,062
Allowance for bad and doubtful debts	**(1,230)**	(834)
	314,740	233,228

The directors consider the carrying amount of trade and other receivables approximates its fair value.

The amounts due from directors were unsecured, interest-free and were fully repaid in 2005.

16. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are unsecured, interest-free and are repayable on demand. Certain substantial shareholders of the Company have beneficial interests in these related companies. The directors consider the carrying amount of amounts due from related companies approximates its fair value.

17. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

The restricted bank deposits carry interests at the prevailing market rate.

The directors consider the carrying amount of restricted bank deposits and bank balances and cash approximates its fair value.

18. TRADE AND OTHER PAYABLES

	2005	2004
	RMB'000	RMB'000
Trade payables	**113,620**	58,758
Notes payables — secured	**32,134**	10,104
	145,754	68,862
Payroll and welfare payables	**33,144**	18,326
Amount due to a director	**—**	419
Other payables	**40,390**	24,688
	219,288	112,295

An aging analysis of trade payables and notes payables is as follows:

	2005	2004
	RMB'000	RMB'000
Age		
Not yet due	**143,758**	65,530
Overdue 0 – 90 days	**1,459**	2,628
Overdue 91 – 180 days	**145**	282
Overdue 181 – 365 days	**392**	39
Overdue over 365 days	**—**	383
	145,754	68,862

The directors consider the carrying amount of trade and other payables approximates its fair value.

The amount due to a director was unsecured, interest-free and was fully repaid in 2005.

19. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest-free and are repayable on demand. Certain substantial shareholders of the Company have beneficial interests in these related companies. The directors consider the carrying amount of amounts due to related companies approximates its fair value.

20. SHORT-TERM BANK LOANS

The short-term bank loans denominated in RMB, at 31st December, 2005 are unsecured and carry interest at fixed rate of 4.70% (2004: ranging from 3.88% to 5.31%).

At 31st December, 2004, short-term bank loans of RMB44,842,000 were guaranteed by related companies which were owned by the substantial shareholders of the Company. All these guarantees have been released in May or June 2005.

The directors consider the carrying amount of short-term bank loans approximates its fair value.

21. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	2004 RMB'000
Nominal value of redeemable convertible preferred shares	
— Series A preferred shares	87,529
— Series B preferred shares	132,221
	219,750
Interest charged	
— Series A preferred shares	2,017
— Series B preferred shares	524
	2,541
Interest payable	
— Series A preferred shares	(2,017)
— Series B preferred shares	(524)
	(2,541)
Liability component	
— Series A preferred shares	87,529
— Series B preferred shares	132,221
	219,750

21. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

The redeemable convertible preferred shares were issued by the Company in March 2004 ("Series A preferred shares") and November 2004 ("Series B preferred shares"). These redeemable convertible preferred shares which are denominated in United States Dollar, are unsecured, carry interest at London InterBank Offered Rate plus 1 percent, and compounded quarterly and shall be payable at time of redemption. The rights of the holders of these redeemable convertible preferred shares are set out in note 22.

In 2004, the redeemable convertible preferred shares are presented as the liability component. The liability component is the carrying amount of the financial liability by discounting the stream of future payments of interest and principal at the prevailing market rate. In the opinion of the directors, the redeemable convertible preferred shares were issued at the prevailing market rate and the fair value of the embedded call option in the convertible notes was insignificant.

The directors consider the carrying amount of redeemable convertible preferred shares approximates its fair value.

All the redeemable convertible preferred shares were converted into ordinary shares of the Company during the year.

22. SHARE CAPITAL

	Number of shares			
	Ordinary shares	Series A preferred shares	Series B preferred shares	Amount US$'000
Authorised:				
Shares of US$1 each				
— 1st January, 2004	50,000	—	—	50
— increase in authorised share capital	1,800,000	150,000	—	1,950
— effect on sub-division of every 1 share of US$1 each into 10 shares of US$0.10 each ("Sub-division 2004")	16,650,000	1,350,000	—	—
Shares of US$0.10 each				
— increase in authorised share capital	—	—	1,000,000	100
— at 31st December, 2004	18,500,000	1,500,000	1,000,000	2,100
— effect on sub-division of every 1 share of US$0.10 each into 10 shares of US$0.01 each ("Sub-division 2005")	166,500,000	13,500,000	9,000,000	—
Shares of US$0.01 each				
— increase in authorised share capital	4,790,000,000	—	—	47,900
— at 31st December, 2005	4,975,000,000	15,000,000	10,000,000	50,000
Issued and fully paid:				
Shares of US$1 each				
— 1st January, 2004	50,000	—	—	50
— effect on Sub-division 2004	450,000	—	—	—
Shares of US$0.1 each				
— issued upon Group Reorganisation	8,540,000	—	—	854
— issued for cash	—	960,000	784,314	174
— at 31st December, 2004	9,040,000	960,000	784,314	1,078
— effect on Sub-division 2005	81,360,000	8,640,000	7,058,826	—
Shares of US$0.01 each				
— conversion of preferred shares	17,443,140	(9,600,000)	(7,843,140)	—
— issue of shares on capitalisation issue	865,596,860	—	—	8,656
— issue of shares on public offer	274,560,000	—	—	2,746
— at 31st December, 2005	1,248,000,000	—	—	12,480

22. SHARE CAPITAL (Continued)

	RMB'000
Shown in the balance sheet	
— at 31st December, 2005 as	101,342

* The carrying amount of Series A preferred shares and Series B preferred shares are presented as the liability component in the balance sheet (see note 21).

The share capital of the Group at 31st December, 2004 represented the aggregate share capital of the Company excluding Series A preferred shares and Series B preferred shares (see note 21) and the paid-in capital of 深圳泰瑞美精密器件有限公司 (Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.), net of minority interests.

Pursuant to resolutions of all the shareholders of the Company on 15th July, 2005 each share of US$0.1 each was sub-divided into 10 shares of US$0.01 each. In addition, the authorised share capital of the Company was increased from US$2,100,000 to US$50,000,000 by the creation of an additional 4,790,000,000 ordinary shares of US$0.01 each.

In 2005:

(a) Pursuant to written resolutions of all the shareholders of the Company on 15th July, 2005, 865,596,860 ordinary shares of US$0.01 each were to be issued, on a pro-rata basis to the then shareholders on 28th July, 2005, and credited as fully paid by ways of capitalisation of the share premium account.

(b) On 9th August, 2005, each issued preferred share of US$0.01 was converted into one ordinary share of US$0.01.

(c) On 8th August, 2005, 274,560,000 ordinary shares of US$0.01 were issued at HK$2.73 (equivalent to approximately RMB2.85) by way of public offer.

22. SHARE CAPITAL (Continued)

The holders of Series A preferred shares and Series B preferred shares are entitled to:

(i) receive, out of any funds legally available, dividends prior and in preference to any declaration of payment of any dividend on, in case of holder of Series A preferred shares, the holders of ordinary shares, in case of holders of Series B preferred shares, the holders of Series A preferred shares and ordinary shares;

(ii) rank, at least pari passu with the holders of the ordinary shares, in the event of any liquidation, dissolution or winding up of the Company;

(iii) vote, together with the holders of the ordinary shares as a single class in a shareholders' meeting. The holders of Series A preferred shares and Series B preferred shares shall be entitled to such number of votes in a shareholders' meeting as would be granted to such holders had they fully converted all of their Series A preferred shares and Series B preferred shares held by them, at that point in time, into ordinary shares;

(iv) convert into ordinary shares upon the closing of an underwritten initial public offering on a recognised stock exchange at the price per share subject to or in case of the holders of Series B preferred shares upon the election of holders of at least 60% of the Series B preferred shares then outstanding at the price at which the Series B preferred shares were actually subscribed for by holders, subject to adjustments; and

(v) be redeemed at a redemption price equal to its issue price plus accrued interest, in case of holder of Series B preferred shares at the option of each holder commencing on 9th November, 2009, in case of Series A preferred shares at the option of holders holding a minimum of 50% of the Series A preferred shares provided all the Series B preferred shares have been fully redeemed.

23. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 15th July, 2005, the Company approved and adopted a share option scheme (the "Scheme") which will expire at its tenth anniversary.

The purpose of the Scheme is to provide the eligible participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate participants to work towards enhancing the value of the Company and the shares and to allow them to participate in the growth of the Company and to align the interests of the shareholders and the participants. Under the Scheme, the directors may grant options to any eligible participants, including the Company's shareholders, all directors and any employees of the Company or any subsidiaries and any consultants, professional and other advisors who will provide or have provided services to the Group.

23. SHARE OPTION SCHEME (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in any one year up to and including the date of such grant (i) representing in aggregate value over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the shares on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The exercisable period of the options granted are determined by the board of directors of the Company at its absolute discretion. The share options will expire no later than ten years from the date of grant. At the time of grant of the share options, the Company may specify a minimum period for which an option must be held before it can be exercised. The acceptance date should not be later than 90 days after the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed in nominal amount of 10% of the issued share capital of the Company at the date of approval of the Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to each eligible participants in any one year is not permitted to exceed 1% of, the shares of the Company in issue from time to time.

The Company has not granted any option under the Scheme since its adoption.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of building premises rented under non-cancellable operating leases which fall due as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**12,469**	6,914
In the second to fifth year inclusive	**17,782**	2,856
	30,251	9,770

25. CAPITAL COMMITMENTS

	2005	2004
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**56,479**	12,559

26. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,000 per month for each employee.

The employees of the Group's PRC subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

27. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	2005 RMB'000	2004 RMB'000
Companies controlled by shareholders of the Company	Sales of goods	**52**	2,285
	Purchase of raw materials	**9,186**	16,295
	Purchase of property, plant and equipment	**—**	7,666
	Equipment rentals paid	**200**	1,000
	Property rentals paid	**6,165**	3,055
	Sales of scrap materials	**—**	740
	Proceeds from disposal of property, plant and equipment	**—**	192
Shareholders	Property rentals paid	**2,970**	2,456

28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company at the balance sheet date are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd.* *(note a)*	PRC	US$5,000,000	Manufacture and sales of acoustic products, research and development
瑞聲開泰聲學科技(上海)有限公司 AAC Acoustic Technologies (Shanghai) Co., Ltd. *(note b)*	PRC	US$1,680,000	Manufacture and sales of headsets and electronic components, research and development

28. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd.* *(note c)*	PRC	US$10,000,000	Manufacture and sales of acoustic products, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd.* *(note d)*	PRC	US$20,000,000	Manufacture and sales of precision components and acoustic products, research and development
常州開泰機電製造有限公司 Changzhou Kaitai Machinery and Electronics Co., Ltd.* *(note e)*	PRC	US$1,680,000	Manufacture and sales of tooling and precision components for acoustic products
常州威利來電子音響器件有限公司 Changzhou Weililai Electronic Acoustic Device Co., Ltd.* *(note f)*	PRC	US$900,000	Manufacture and sales of transducers and acoustic products
常州泰瑞美電鍍科技有限公司 Changzhou Tairumei Electroplating Technology Co., Ltd. *(note g)*	PRC	RMB1,000,000	Provision of electroplating service
深圳泰瑞美精密器件有限公司 Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd. *(note h)*	PRC	US$5,000,000	Manufacture and sales of acoustic products and tooling and precision components for acoustic products

* Directly held by the Company.

28. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) Wholly owned foreign enterprise for a term of 50 years commencing 28th September, 2003.

(b) Wholly owned foreign enterprise for a term of 20 years commencing 5th August, 2004.

(c) Wholly owned foreign enterprise for a term of 20 years commencing 12th January, 2004.

(d) Wholly owned foreign enterprise for a term of 20 years commencing 28th January, 2000.

(e) Wholly owned foreign enterprise for a term of 15 years commencing 12th August, 1998.

(f) Wholly owned foreign enterprise for a term of 14 years commencing 29th July, 1993.

(g) Wholly owned foreign enterprise for a term of 20 years commencing 11th April, 2005.

(h) Wholly owned foreign enterprise for a term of 10 years commencing 7th April, 2000.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

	Year ended 31st December,			
	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
Turnover	**1,073,744**	626,847	422,025	318,122
Profit before taxation	**353,592**	227,827	170,427	114,693
Taxation	**(20,271)**	(29,484)	(21,321)	(14,267)
Profit for the year	**333,321**	198,343	149,106	100,426
Attributable to:				
Equity holders of the Company	**332,859**	197,653	138,481	89,902
Minority interests	**462**	690	10,625	10,524
	333,321	198,343	149,106	100,426

	As at 31st December,			
	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Total assets	**1,791,921**	825,309	523,908	347,987
Total liabilities	**(253,478)**	(565,514)	(218,945)	(138,170)
Net assets	**1,538,443**	259,795	304,963	209,817
Attributable to:				
Equity holders of the Company	**1,538,443**	256,794	272,336	187,815
Minority interests	**—**	3,001	32,627	22,002
	1,538,443	259,795	304,963	209,817

The results and summary of assets and liabilities for the three years ended 31st December, 2004, which were extracted from the Company's prospectus date 28th July, 2005 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned and in accordance with the respective equity interests in the individual companies attributable to the shareholders as at those dates.