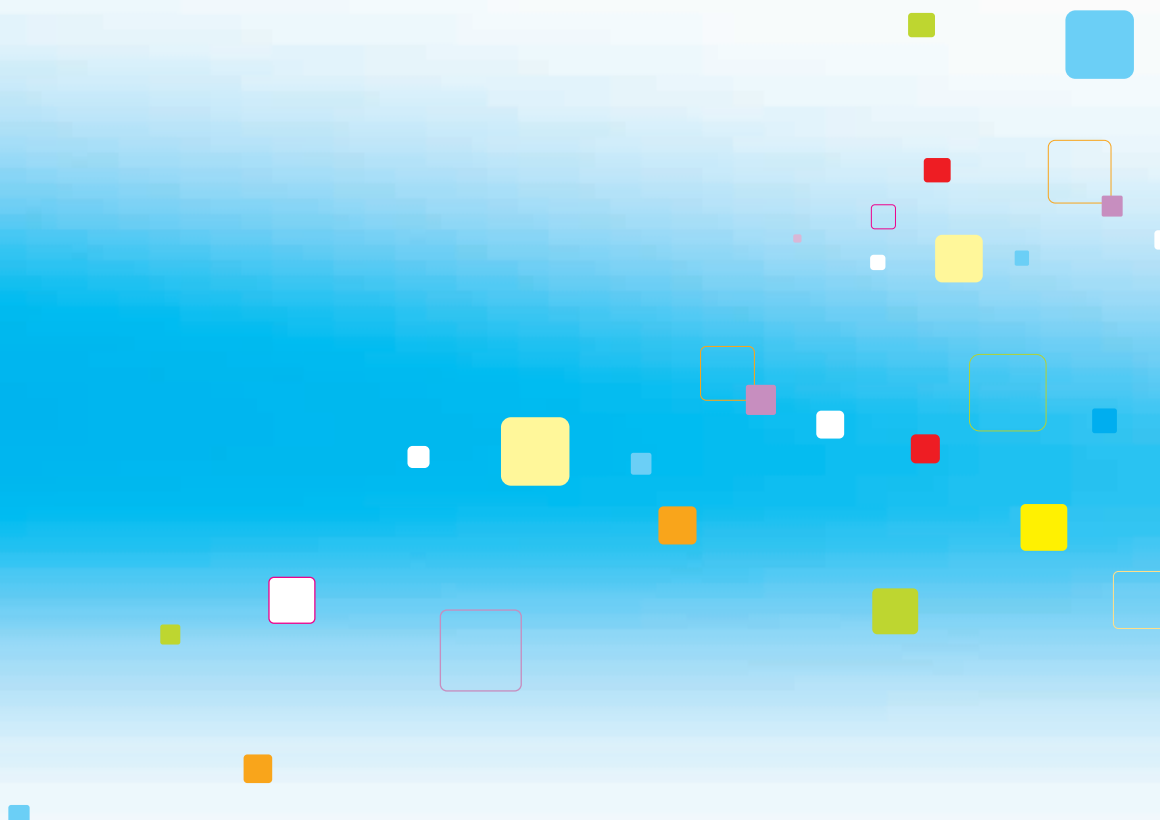




# AAC Acoustic Technologies Holdings Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code : 2018



# 2006 Interim Report

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# 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*

35th Floor, One Pacific Place

88 Queensway

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](http://www.aacelectr.com)

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

# Condensed Consolidated Income Statement

For the six months ended 30th June, 2006

The board of directors (the “Board”) of AAC Acoustic Technologies Holdings Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with the unaudited comparative figures for the corresponding period in 2005. These interim financial statements have not been audited, but have been reviewed by the auditors, Deloitte Touche Tohmatsu, and the Company’s audit committee (the “Audit Committee”).

	NOTES	<b>1.1.2006 to 30.6.2006 (Unaudited) RMB'000</b>	1.1.2005 to 30.6.2005 (Unaudited) RMB'000
Turnover		<b>815,688</b>	436,331
Cost of goods sold		<b>(402,997)</b>	(229,662)
Gross profit		<b>412,691</b>	206,669
Other income		<b>17,738</b>	3,056
Fair value change in respect of investments held-for-trading		<b>116</b>	—
Distribution and selling expenses		<b>(56,781)</b>	(19,084)
Administrative expenses		<b>(77,458)</b>	(41,976)
Finance costs		<b>(450)</b>	(5,525)
Profit before taxation	4	<b>295,856</b>	143,140
Taxation	5	<b>(19,571)</b>	(9,483)
Profit for the period		<b>276,285</b>	133,657
Attributable to:			
Equity holders of the Company		<b>276,291</b>	133,195
Minority interests		<b>(6)</b>	462
		<b>276,285</b>	133,657
Earnings per share — Basic	6	<b>22.14 cents</b>	13.93 cents

# Condensed Consolidated Balance Sheet

At 30th June, 2006

	NOTES	<b>30.6.2006 (Unaudited) RMB'000</b>	31.12.2005 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>414,788</b>	342,127
Land use rights		<b>8,996</b>	7,816
Deposits made on acquisition of property, plant and equipment		<b>97,525</b>	19,361
		<b>521,309</b>	369,304
<b>Current assets</b>			
Inventories		<b>162,429</b>	116,237
Trade and other receivables	8	<b>439,328</b>	347,625
Investments held-for-trading	9	<b>39,989</b>	—
Amounts due from related companies		<b>39</b>	81
Taxation recoverable		<b>625</b>	899
Restricted bank deposits		<b>17,541</b>	18,805
Bank balances and cash		<b>937,842</b>	938,970
		<b>1,597,793</b>	1,422,617
<b>Current liabilities</b>			
Trade and other payables	10	<b>267,557</b>	219,288
Amounts due to related companies		<b>2,389</b>	1,936
Taxation payable		<b>22,506</b>	17,254
Short-term bank loans	11	<b>10,000</b>	15,000
Derivative financial instruments		<b>1,002</b>	—
		<b>303,454</b>	253,478

# Condensed Consolidated Balance Sheet

At 30th June, 2006

	NOTES	<b>30.6.2006</b> <b>(Unaudited)</b> <b>RMB'000</b>	31.12.2005 (Audited) RMB'000
Net current assets		<b>1,294,339</b>	1,169,139
Net assets		<b>1,815,648</b>	1,538,443
Capital and reserves			
Share capital	12	<b>101,342</b>	101,342
Reserves		<b>1,712,707</b>	1,437,101
Equity attributable to equity holders of the Company		<b>1,814,049</b>	1,538,443
Minority interests		<b>1,599</b>	—
Total equity		<b>1,815,648</b>	1,538,443

# Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2006

	<b>1.1.2006 to 30.6.2006 (Unaudited) RMB'000</b>	1.1.2005 to 30.6.2005 (Unaudited) RMB'000
Net cash from operating activities	<b>163,994</b>	109,515
Net cash used in investing activities		
Deposit paid on acquisition of property, plant and equipment	<b>(97,525)</b>	(16,911)
Purchase of property, plant and equipment	<b>(76,300)</b>	(56,125)
Other investing cash flows	<b>14,916</b>	(2,360)
	<b>(158,909)</b>	(75,396)
Net cash used in financing activities		
Dividends paid	—	(63,049)
Other financing cash flows	<b>(5,450)</b>	(44,969)
	<b>(5,450)</b>	(108,018)
Net decrease in cash and cash equivalents	<b>(365)</b>	(73,899)
Cash and cash equivalents at 1st January	<b>938,970</b>	246,321
Effect of foreign exchange rate changes	<b>(763)</b>	41
Cash and cash equivalents at 30th June	<b>937,842</b>	172,463
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>937,842</b>	172,463

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30th June, 2006*

## **1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2005.

In the current period, the Group has applied, for the first time, a number of new International Financial Reporting Standards (“IFRS”), amendments and interpretations (hereinafter collectively referred to as “new IFRSs”), which are effective for accounting periods beginning either on or after 1st December, 2005 or 1st January, 2006. The application of these new IFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

At the date of authorisation of these condensed consolidated financial statements, the following IAS and IFRS issued by the International Accounting Standards Board (“IASB”), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures <sup>1</sup>
IFRS 7	Financial instruments: Disclosures <sup>1</sup>
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
IFRIC 8	Scope of IFRS 2 <sup>3</sup>
IFRIC 9	Reassessment of embedded derivatives <sup>4</sup>
IFRIC 10	Interim financial reporting and impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006.

The Group has not early applied the above IAS, IFRS and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these IAS, IFRS and Interpretations will have no material impact on the results and financial position of the Group.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

### 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 primary format for reporting segment information is geographical segments.

	<b>1.1.2006 to 30.6.2006 RMB'000</b>	1.1.2005 to 30.6.2005 RMB'000
<b>Turnover</b>		
United States of America	<b>251,508</b>	130,535
Greater China	<b>442,292</b>	233,936
Asia (excluding Greater China)	<b>48,453</b>	46,901
Europe	<b>73,435</b>	24,959
	<b>815,688</b>	436,331
<b>Results</b>		
United States of America	<b>95,487</b>	48,319
Greater China	<b>153,807</b>	77,297
Asia (excluding Greater China)	<b>19,060</b>	15,226
Europe	<b>27,836</b>	7,823
	<b>296,190</b>	148,665
Fair value change in respect of investments held-for-trading	<b>116</b>	—
Finance costs	<b>(450)</b>	(5,525)
Profit before taxation	<b>295,856</b>	143,140
Taxation	<b>(19,571)</b>	(9,483)
Profit for the period	<b>276,285</b>	133,657

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 4. PROFIT BEFORE TAXATION

	<b>1.1.2006 to 30.6.2006 RMB'000</b>	1.1.2005 to 30.6.2005 RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation	<b>21,437</b>	14,434
Allowance for bad and doubtful debts	<b>3,257</b>	812
Loss on disposal of property, plant and equipment	<b>525</b>	—

## 5. TAXATION

	<b>1.1.2006 to 30.6.2006 RMB'000</b>	1.1.2005 to 30.6.2005 RMB'000
The charge comprises:		
Hong Kong Profits Tax at 17.5% on the estimated assessable profit for the period	<b>(986)</b>	(328)
PRC Income Tax	<b>(18,578)</b>	(9,148)
Overseas taxation	<b>(7)</b>	(7)
	<b>(19,571)</b>	(9,483)

Pursuant to the relevant laws and regulations in the PRC, certain 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.

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

There was no significant unprovided deferred taxation during the period or at the balance sheet date.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2006 is based on the profit for the period attributable to equity holders of the Company of RMB276,291,000 (2005: RMB133,195,000) and on the 1,248,000,000 (2005: 955,996,860) shares in issue during the period.

No diluted earnings per share was presented for the six months ended 30th June, 2005 as assuming the conversion of redeemable convertible preferred shares would have resulted in an increase in earnings per share. All the redeemable convertible preferred shares were converted into ordinary shares of the Company in August 2005.

## 7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group made additions to property, plant and equipment of approximately RMB95 million (2005: RMB70 million) on acquisition of property, plant and equipment, including transfers from deposits of approximately RMB19 million (2005: RMB14 million).

## 8. TRADE RECEIVABLES

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

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Age		
Not yet due	<b>368,746</b>	288,809
Overdue 0–90 days	<b>4,851</b>	25,668
Overdue 91–180 days	<b>1,344</b>	67
Overdue over 181 days	<b>6,408</b>	1,426
	<b>381,349</b>	315,970
Allowance for bad and doubtful debts	<b>(4,487)</b>	(1,230)
	<b>376,862</b>	314,740

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 9. INVESTMENTS HELD-FOR-TRADING

The investments held-for-trading represents the Group's investment in trust funds and are at each balance sheet date subsequent to initial recognition measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The fair value of the investments held-for-trading is determined based on market bid price as at 30th June, 2006.

## 10. TRADE PAYABLES

The following is an aged analysis of trade payables and notes payables at the balance sheet date:

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Age		
Not yet due	<b>168,861</b>	143,758
Overdue 0–90 days	<b>11,399</b>	1,459
Overdue 91–180 days	<b>619</b>	145
Overdue over 181 days	<b>1,402</b>	392
	<b>182,281</b>	145,754

## 11. SHORT-TERM BANK LOANS

During the period, the Group raised new short-term bank loans of RMB30 million (2005: RMB83 million) and made repayments of RMB35 million (2005: RMB83 million). At 31st December, 2005 and 30th June, 2006, the short-term bank loans are unsecured and carry interest at fixed rate of 4.70% per annum.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 12. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares	4,975,000,000	49,750
Series A preferred shares	15,000,000	150
Series B preferred shares	10,000,000	100
At 1st January, 2006 and 30th June, 2006	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2006 and 30th June, 2006	1,248,000,000	12,480
		RMB'000
Shown in the balance sheet at 1st January, 2006 and 30th June, 2006 as		101,342

## 13. CAPITAL COMMITMENTS

	30.6.2006 RMB'000	31.12.2005 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	31,743	56,479

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

## 14. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	1.1.2006 to 30.6.2006 RMB'000	1.1.2005 to 30.6.2005 RMB'000
Companies controlled by substantial shareholders of the Company	Sales of goods	—	52
	Purchase of raw materials	—	7,916
	Equipment rentals paid	—	200
	Property rentals paid	—	3,162
Minority shareholder of a subsidiary	License fee expense	<b>535</b>	—
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	<b>2,947</b>	—
	Property rentals paid	<b>3,131</b>	—
Close family members of the directors of the Company	Property rentals paid	<b>1,030</b>	—
Substantial shareholders	Property rentals paid	<b>332</b>	1,567

Included in deposits made on acquisition of property, plant and equipment as at 30th June, 2006 are deposits of RMB2,443,000 (2005: RMB nil) made to a minority shareholder of a subsidiary for acquisition of certain property, plant and equipment.

During the period, the emoluments paid to the key management personnel of the Company, which represents the directors of the Company, was RMB1,907,000 (2005: RMB621,000).

# Independent Review Report

*For the six months ended 30th June, 2006*

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

*(incorporated in the Cayman Islands with limited liability)*

### **Introduction**

We have been instructed by AAC Acoustic Technologies Holdings Inc. (the “Company”) to review the interim financial report set out on pages 3 to 15.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors of the Company.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with the Statement of Auditing Standard 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.



# Independent Review Report

*For the six months ended 30th June, 2006*

## **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2006.

## **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

5th September, 2006

# Management Discussion and Analysis

## OVERVIEW

The results in the first half of 2006 demonstrated our persistent growth in orders, revenue and profitability. We continued to carry out our long-term growth strategic plan effectively by launching new products and entering into new growth areas, together with our leading acoustic technology, we uniquely positioned our Company for new levels of performance.

In the second quarter of this year, both of our sales and profit have improved compared with those in the first quarter. With our leading acoustic technology, utilization of our factory, cycle times and other margin improvement programs, we are well-positioned to continue creating value for our shareholders.

## MARKET REVIEW

The first half of 2006 has ended on a positive note as customers began increasing orders and in turn we have invested in new capacity to prepare for further growth. Throughout the first half of this year, we continued to advance our acoustic technology, launched new products and our growth strategy. We are committed to providing customers with innovative technology solutions that will help them to bring their products to market.

## FINANCIAL REVIEW

Our revenue for the six months ended 30th June, 2006 was RMB815.7 million, representing an increase of RMB379.4 million, or 86.9%, compared with the corresponding period of 2005. Overall gross margin was 50.6% for the six months ended 30th June, 2006 compared with 47.4% for the corresponding period of 2005. Net profit attributable to equity holders of the Company was RMB276.3 million for the six months ended 30th June, 2006 compared with RMB133.2 million for the corresponding period of 2005. Basic earnings per share was RMB22.14 cents, representing an increase of 58.9% from RMB13.93 cents for the corresponding period of 2005.

During the six months ended 30th June, 2006, we maintained a balance sheet with a significant cash balance and low debt levels that can support continual investment which generates revenue growth, high returns on invested capital and increased shareholder value. This also gives us financial flexibility to take advantage of any business opportunity or to deal with economic difficulties that we may face.

## 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 30th June, 2006, was 0.5% compared with 0.8% as at 31st December, 2005.

# Management Discussion and Analysis

## **INDEBTEDNESS**

As at 30th June, 2006, the Group had RMB10.0 million short-term bank loans compare with RMB15.0 million as at 31st December, 2005.

## **CONTINGENT LIABILITIES**

As at 30th June, 2006, the Group had no material contingent liabilities.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30th June, 2006, the Group had RMB937.8 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB17.5 million. The Group had no long-term debt as at 30th June, 2006. 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**

The majority of the Group's sales, purchases and operating expenses were denominated in Renminbi, U.S. dollars, Japanese yen, Hong Kong dollars and Euro. The Board believes that the Group has been and will continue to be exposed to foreign currency exchange risks but it does not expect future currency fluctuations to have material impact on the operations of the Group. The Group does not have any formal hedging policy and no instrument has been applied for hedging purpose during the six months ended 30th June, 2006.

## **CHARGES ON GROUP ASSETS**

As at 30th June, 2006, no Group asset was under charge to any financial institution.

## **MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY**

During the six months ended 30th June, 2006, the Group has no material acquisition and disposal.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS**

During the six months ended 30th June, 2006, the Company 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.

# Management Discussion and Analysis

## **EMPLOYEE INFORMATION**

As at 30th June, 2006, the Group employed 8,811 permanent employees worldwide. Various training activities were provided to the employees for improving the quality of services as well as for ensuring the smooth and effective operation of the Group's business.

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 appraise work performance of its staff.

Employee remunerations include salaries, allowances, social insurance or mandatory pension fund. As required by PRC regulations, 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 our employees in Hong Kong, the United States of America and Europe.

## **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.

No dividends have been paid or declared by the Company for the six months ended 30th June, 2006.

## **PROSPECTS**

The Company believes it will continue to deliver growth in sales and net profit due to increased demand by its customers, new product design capabilities and streamlined production programs. Going forward, the Company will continue to stay focusing on solidifying its position in the industry through technology innovation, rapid product development and delivery, and high customer satisfaction.

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

As at 30th June, 2006, 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 Issuers contained in Appendix 10 of the Listing Rules (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. Benjamin Zhengmin Pan ("Mr. Pan") <sup>(1)</sup>	218,520,634	49,645,440	83,877,430	352,043,504	28.21%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") <sup>(2)</sup>	209,828,594	—	83,877,430	293,706,024	23.53%
Mr. Yang Dong Shao <sup>(3)</sup>	—	43,968,443	—	43,968,443	3.52%
Mr. Koh Boon Hwee	1,307,562	—	—	1,307,562	0.10%
Mr. Li Xiang	48,441,887	—	—	48,441,887	3.88%

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.

## Other Information

- (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 43,968,443 shares which are beneficially owned by Chengwei AAC Holdings Ltd.

Other than as disclosed above, as at 30th June, 2006, 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.

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, 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:

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Pan <sup>(1)</sup>	637,092,532(L)	51.05%(L)
Ms. Wu <sup>(2)</sup>	637,092,532(L)	51.05%(L)
J.P. Morgan Chase & Co. <sup>(3)</sup>	199,281,864(L)	15.97%(L)
	37,092,000(P)	2.97%(P)
Credit Suisse Group <sup>(4)</sup>	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.

## Other Information

- (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 descendants, 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) J.P. Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 199,281,864 shares of the Company.

Of these 199,281,864 shares, 37,092,000 shares are directly held by JP Morgan Chase Bank, N.A., J.P. Morgan Chase & Co. is deemed to be interested in these 37,092,000 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.; 1,492,000 shares are directly held by JF Asset Management Limited, by virtue of JP Morgan Asset Management (Asia) Inc.'s 100% interest in JF Asset Management Limited, JP Morgan Asset Management Holdings Inc.'s 100% interest in JP Morgan Asset Management (Asia) Inc. and J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Asset Management Holdings Inc., JP Morgan Asset Management (Asia) Inc., JP Morgan Asset Management Holdings Inc. and J.P. Morgan Chase & Co. are deemed to be interested in these 1,492,000 shares; 159,097,864 shares are directly held by J.P. Morgan Investment Management Inc., by virtue of JP Morgan Asset Management Holdings Inc.'s 100% interest in J.P. Morgan Investment Management Inc. and J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Asset Management Holdings Inc., JP Morgan Asset Management Holdings Inc. and J.P. Morgan Chase & Co. are deemed to be interested in these 159,097,864 shares; 1,600,000 shares are directly held by J.P. Morgan Securities Ltd., by virtue of J.P. Morgan Chase International Holdings Limited's 98.95% interest in J.P. Morgan Securities Ltd., J.P. Morgan Chase (UK) Holdings Limited's 100% interest in J.P. Morgan Chase International Holdings Limited, J.P. Morgan Capital Holdings Limited's 100% interest in J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan International Finance Limited's 72.72% interest in J.P. Morgan Capital Holdings Limited, Bank One International Holdings Corporation's 100% interest in J.P. Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, JP Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc. and J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., J.P. Morgan Chase International Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Chase Bank, N.A. and J.P. Morgan Chase & Co. are deemed to be interested in these 1,600,000 shares.

Comprising 37,092,000 shares in the lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

## Other Information

- (4) 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 30th June, 2006, 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.

### **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 "SO Scheme") which will expire at its tenth anniversary. For details of the SO Scheme, please refer to the prospectus of the Company dated 28th July, 2005.

During the six months ended 30th June, 2006, no options had been granted or agreed to be granted or outstanding under the SO Scheme of the Company.

### **ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES**

At no time during the six months ended 30th June, 2006 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.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30th June, 2006, there was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries.



### **CORPORATE GOVERNANCE**

During the six months ended 30th June, 2006, the Company has complied with the code provisions 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 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.

All Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions during the six months ended 30th June, 2006.

### **BOARD COMMITTEES**

#### **Audit Committee**

The Board has established an Audit Committee on 16th April, 2005. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Audit Committee comprises 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 Audit Committee and the auditors of the Company, Deloitte Touche Tohmatsu, have reviewed and discussed with the management regarding the Company’s unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2006.

#### **Remuneration Committee**

The Board has established a Remuneration Committee on 16th April, 2005 in compliance with the CG Code. The Remuneration Committee will make recommendations to the Board on the remuneration of executive Directors and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors. Members of the Remuneration Committee include Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Dr. Thomas Kalon Ng. Mr. Koh Boon Hwee is the chairman of the Remuneration Committee.

## Other Information

### **Nomination Committee**

The Board has established a Nomination Committee on 16th April, 2005 in compliance with the CG Code. The Nomination Committee will make recommendations to the Board on the appointment of executive Directors and senior management. Members of the Nomination Committee include 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.

By Order of the Board

**AAC ACOUSTIC TECHNOLOGIES HOLDINGS INC.**

**Koh Boon Hwee**

*Chairman*

Hong Kong, 5th September, 2006