

Contents

02	Corporate Information
03	Condensed Consolidated Income Statement
04	Condensed Consolidated Balance Sheet
06	Condensed Consolidated Statement of Changes in Equity
07	Condensed Consolidated Cash Flow Statement
08	Notes to the Condensed Consolidated Financial Statements
14	Report on Review of Interim Financial Information
15	Management Discussion and Analysis
18	Other Information

Corporate Information

DIRECTORS

Executive Director

Mr. Benjamin Zhengmin Pan
(Chief Executive Officer)

Non-executive Directors

Ms. Ingrid Chunyuan Wu

Mr. Pei Kang

Dr. Thomas Kalon Ng

Independent non-executive Directors

Mr. Koh Boon Hwee *(Chairman)*

Dr. Dick Mei Chang

Mr. Mok Joe Kuen Richard

COMPANY SECRETARY

Mr. Cheung Yuk Chuen

QUALIFIED ACCOUNTANT

Mr. Cheung Yuk Chuen

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. Pei Kang

AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan

Mr. Cheung Yuk Chuen

Alternative authorized representative

Mr. Mok Joe Kuen Richard

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

35th Floor, One Pacific Place

88 Queensway

Hong Kong

REGISTERED OFFICE

Cricket Square

Hutchins Drive

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Grand Cayman KY1-1111

Cayman Islands

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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

Strathvale House

North Church Street

George Town

Grand Cayman KY1-1106

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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.aacacoustic.com

Condensed Consolidated Income Statement

For the six months ended 30th June, 2007

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 (collectively referred to as the “Group”) for the six months ended 30th June, 2007 together with the unaudited comparative figures for the corresponding period in 2006. 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	1.1.2007 to 30.6.2007 (Unaudited) RMB'000	1.1.2006 to 30.6.2006 (Unaudited) RMB'000
Turnover	3	801,805	815,688
Cost of goods sold		(428,791)	(402,997)
Gross profit		373,014	412,691
Other income		13,677	17,854
Fair value gain on foreign exchange linked notes		2,543	—
Distribution and selling expenses		(54,030)	(56,781)
Administrative expenses		(117,575)	(77,458)
Finance costs		(301)	(450)
Profit before taxation	4	217,328	295,856
Taxation	5	(27,052)	(19,571)
Profit for the period		190,276	276,285
Attributable to:			
Equity holders of the Company		192,614	276,291
Minority interests		(2,338)	(6)
		190,276	276,285
Earnings per share — Basic	6	RMB15.46 cents	RMB22.14 cents

Condensed Consolidated Balance Sheet

At 30th June, 2007

	NOTES	30.6.2007 (Unaudited) RMB'000	31.12.2006 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	7	729,400	618,842
Prepaid lease payments		35,095	7,921
Foreign exchange linked notes		81,831	79,288
Deposits made on acquisition of property, plant and equipment		55,787	55,712
Prepaid license rights		9,308	12,145
Development expenditure		28,433	—
		939,854	773,908
Current assets			
Inventories		238,855	188,470
Prepaid lease payments		1,172	—
Trade and other receivables	8	467,083	553,926
Amounts due from related companies		260	—
Amount due from a minority shareholder of a subsidiary		7,615	7,807
Taxation recoverable		2,331	2,168
Restricted bank deposits		28,281	26,952
Bank balances and cash		1,085,303	988,992
		1,830,900	1,768,315
Current liabilities			
Trade and other payables	9	309,685	374,010
Amounts due to related companies		9,000	11,165
Taxation payable		21,994	22,000
Short-term bank loans	10	190,353	10,000
		531,032	417,175
Net current assets		1,299,868	1,351,140
Net assets		2,239,722	2,125,048

Condensed Consolidated Balance Sheet

At 30th June, 2007

	NOTES	30.6.2007 (Unaudited) RMB'000	31.12.2006 (Audited) RMB'000
Capital and reserves			
Share capital	11	100,530	101,342
Reserves		2,127,830	2,009,793
Equity attributable to equity holders of the Company		2,228,360	2,111,135
Minority interests		11,362	13,913
Total equity		2,239,722	2,125,048

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Special reserve	Translation reserve	Non-distributable reserve	PRC statutory reserves	Retained profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2007	101,342	885,259	(7,469)	2,281	87,245	49,358	993,119	2,111,135	13,913	2,125,048
Exchange differences arising from translation of overseas operations, representing net expense recognised in equity	—	—	—	(1,034)	—	—	—	(1,034)	(213)	(1,247)
Profit for the period	—	—	—	—	—	—	192,614	192,614	(2,338)	190,276
Total recognised (expense) income for the period	—	—	—	(1,034)	—	—	192,614	191,580	(2,551)	189,029
Shares repurchased and cancelled	(812)	(73,543)	—	—	—	—	—	(74,355)	—	(74,355)
Transfers	—	—	—	—	—	38,398	(38,398)	—	—	—
At 30th June, 2007	100,530	811,716	(7,469)	1,247	87,245	87,756	1,147,335	2,228,360	11,362	2,239,722
At 1st January, 2006	101,342	885,259	(7,469)	(97)	87,245	31,959	440,204	1,538,443	—	1,538,443
Exchange differences arising from translation of overseas operations, representing net expense recognised in equity	—	—	—	(685)	—	—	—	(685)	—	(685)
Profit for the period	—	—	—	—	—	—	276,291	276,291	(6)	276,285
Total recognised (expense) income for the period	—	—	—	(685)	—	—	276,291	275,606	(6)	275,600
Capital contribution from a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	1,605	1,605
Transfers	—	—	—	—	—	10,063	(10,063)	—	—	—
At 30th June, 2006	101,342	885,259	(7,469)	(782)	87,245	42,022	706,432	1,814,049	1,599	1,815,648

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Company 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 of the Company and the allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up 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 of the Company 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's 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 subsidiaries of the Company.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2007

	1.1.2007 to 30.6.2007 (Unaudited) RMB'000	1.1.2006 to 30.6.2006 (Unaudited) RMB'000
Net cash from operating activities	190,799	163,994
Net cash used in investing activities		
Prepaid lease payments made	(28,779)	—
Deposit paid on acquisition of property, plant and equipment	(55,787)	(97,525)
Purchase of property, plant and equipment	(90,370)	(76,300)
Development expenditure	(29,417)	—
Other investing cash flows	9,458	14,916
	(194,895)	(158,909)
Net cash from (used in) financing activities		
Shares repurchased	(74,355)	—
Short-term loans raised	190,353	—
Short-term loans repaid	(10,000)	—
Other financing cash flows	(2,466)	(5,450)
	103,532	(5,450)
Net increase (decrease) in cash and cash equivalents	99,436	(365)
Cash and cash equivalents at 1st January	988,992	938,970
Effect of foreign exchange rate changes	(3,125)	(763)
Cash and cash equivalents at 30th June	1,085,303	937,842
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,085,303	937,842

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

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, 2006.

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 on 1st January, 2007. The adoption of these new IFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective:

IAS 23 (Revised)	Borrowing costs ¹
IFRS 8	Operating segments ¹
IFRIC 11	IFRS 2: Group and treasury share transactions ²
IFRIC 12	Service concession arrangements ³
IFRIC 13	Customer loyalty programmes ⁴
IFRIC 14	IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction ³

1 Effective for annual periods beginning on or after 1st January, 2009.

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

3 Effective for annual periods beginning on or after 1st January, 2008.

4 Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial position of the Group.

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

Over 90% of the Group’s turnover, segment results and assets are attributable to the manufacture and sales of acoustic related products, thus business segment information is not presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's primary format for reporting segment information is geographical segments.

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Turnover		
United States of America	331,095	251,508
Greater China	333,521	442,292
Asia (excluding Greater China)	51,612	48,453
Europe	85,577	73,435
	801,805	815,688
Results		
United States of America	84,242	90,606
Greater China	87,710	145,223
Asia (excluding Greater China)	9,718	18,119
Europe	20,890	26,411
	202,560	280,359
Other income	3,899	6,086
Interest income	9,778	11,768
Fair value gain on foreign exchange linked notes	2,543	—
Unallocated expenses	(1,151)	(1,907)
Finance costs	(301)	(450)
Profit before taxation	217,328	295,856
Taxation	(27,052)	(19,571)
Profit for the period	190,276	276,285

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

4. PROFIT BEFORE TAXATION

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation	34,364	21,437
Allowance for bad and doubtful debts	—	3,257
Loss on disposal of property, plant and equipment	—	525

5. TAXATION

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
The charge comprises:		
Hong Kong Profits Tax	2	986
PRC Income Tax	27,044	18,578
Overseas taxation	6	7
	27,052	19,571

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.

On 16th March, 2007, the Enterprise Income Tax Law (the “new EIT law”) was passed at the Fifth session of the Tenth National People’s Congress of the PRC. The new EIT law will be effective as of 1st January, 2008. However, the detailed implementation rules regarding the new EIT law have not yet been issued and therefore the Group is not in a position to determine whether the Company’s subsidiaries will still be entitled to the preferential tax treatment mentioned above.

Hong Kong Profits Tax, PRC Income Tax and overseas taxation are recognised based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

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, 2007

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2007 is based on the profit for the period attributable to equity holders of the Company of RMB192,614,000 (2006: RMB276,291,000) and on the 1,246,052,000 (2006: 1,248,000,000) weighted average number of shares in issue during the period.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group made additions to property, plant and equipment of approximately RMB146 million (For the six months ended 30th June, 2006: RMB95 million) on acquisition of property, plant and equipment, including transfers from deposits of approximately RMB56 million (For the six months ended 30th June, 2006: RMB19 million).

8. TRADE RECEIVABLES AND NOTES 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 180 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:

	30.6.2007	31.12.2006
	RMB'000	RMB'000
Age		
Not yet due	420,271	439,498
Overdue 0–90 days	5,638	62,816
Overdue 91–180 days	31	3,890
Overdue over 181 days	428	923
	426,368	507,127

9. TRADE PAYABLES AND NOTES PAYABLES

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

	30.6.2007	31.12.2006
	RMB'000	RMB'000
Age		
Not yet due	172,495	224,295
Overdue 0–90 days	4,502	13,660
Overdue 91–180 days	357	47
Overdue over 181 days	1,540	1,431
	178,894	239,433

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

10. SHORT-TERM BANK LOANS

During the period, the Group raised new short-term bank loans of RMB190 million (For the six months ended 30th June, 2006: RMB30 million) and made repayments of RMB10 million (For the six months ended 30th June, 2006: RMB35 million). The short-term bank loans are unsecured and carry interest at 1.25% per annum over London Inter-bank Offered Rate (As at 31st December, 2006: fixed rate of 5.03% per annum).

11. 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
<hr/>		
At 1st January, 2007 and 30th June, 2007	5,000,000,000	50,000
<hr/>		
Issued and fully paid:		
Ordinary shares at 1st January, 2007	1,248,000,000	12,480
Share repurchased and cancelled	(10,000,000)	(100)
<hr/>		
Ordinary shares at 30th June, 2007	1,238,000,000	12,380
<hr/>		
		RMB'000
Shown in the balance sheet at 1st January, 2007		101,342
Share repurchased and cancelled		(812)
<hr/>		
At 30th June, 2007		100,530
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During the period, the Company repurchased 10,000,000 of its issued ordinary shares for a total consideration of RMB74,355,000. The ordinary shares repurchased were cancelled and have been debited to the share capital and share premium account.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

12. CAPITAL COMMITMENTS

	30.6.2007	31.12.2006
	RMB'000	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	49,323	80,771

13. CONTINGENT LIABILITY

The Company and a subsidiary have been named as defendants in a United States District Court action in respect of an alleged claim of trade secret misappropriation under the Illinois Trade Secrets Act (the "Complaint"). The Complaint seeks injunctive relief and damages for an unspecified amount. The Group believes that it has meritorious defenses to the Complaint and thus no provision for any potential liability has been made in these consolidated financial statements.

A hearing on the preliminary injunction began on 20th February, 2007 and a ruling in the Group's favour denying the motion was announced by the Court and thereafter formally filed by the Court on 13th March, 2007.

14. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
		RMB'000	RMB'000
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	5,863	2,947
	Property rentals paid	3,148	3,131
Close family members of the directors of the Company	Property rentals paid	1,030	1,030
Substantial shareholders	Property rentals paid	319	332

During the period, the emoluments paid to the key management personnel of the Company, which represents the directors of the Company, was RMB1,151,000 (For the six months ended 30th June, 2006: RMB1,907,000).

Report on Review of Interim Financial Information

Deloitte. **德勤**

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

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 3 to 13, which comprises the condensed consolidated balance sheet of AAC Acoustic Technologies Holdings Inc. (the “Company”) as of 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

14th September, 2007

Management Discussion and Analysis

OVERVIEW

We are one of the world's leading manufacturers of miniature acoustic components. We design, manufacture and distribute a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, transducers and headsets for use in mobile handsets, game consoles, notebook computers and other consumer electronics devices such as MP3 players and MP4 players. Recently, we also launched the production of a variety of miniature vibrators to diversify into the production of non-acoustic components. We believe that our strong research and product development capabilities, as well as our vertically-integrated and semi-automated production processes, have continued to enable us to produce advanced miniature components that can meet our customers' strict requirements for performance, quality and cost.

MARKET REVIEW

Business environment during the first half of 2007 was extremely tough as our handset customers were faced with fierce competition. Nonetheless, we weathered the tough conditions fairly well with sales to selected customers increasing significantly. We are proud of the fact that we started product shipment to one of the largest global handset manufacturer by the end of July 2007. This is in-line with our group strategy to diversify into new customers as well as new applications. Our research and development expenditure in the second quarter of 2007 were higher than usual as we were trying to ramp up the production platforms for the new customer.

To cope with the development of our new product, "speaker box plus antenna", we have acquired an antenna design house in Sweden. The staff of this design house has had extensive experience in developing, manufacturing and selling antennas to several leading mobile handset manufacturers. It is a common solution in the industry to use the speaker box as a carrier for the antenna and we will further strengthen our integrated solution in this respect to satisfy our customers' need. We intend to offer a turnkey solution with full control from design to manufacturing to quality control.

At the end of 2006, Knowles Electronics, LLC ("Knowles") filed a motion for a preliminary injunction to bar the Company from producing and selling MEMS microphones, allegedly claiming that the Company was involved in unfair trade practices including misappropriation of trade secrets. Subsequently, on 9th March, 2007, the United States District Court for the Northern District of Illinois denied Knowles' motion finding it to be without merit. We continue to believe that the entire suit is without merit and the Company will vigorously defend itself. We incurred RMB3.3 million of legal fees during the second quarter of 2007 with respect to this lawsuit.

FINANCIAL REVIEW

Our revenue for the six months ended 30th June, 2007 was RMB801.8 million, representing a decrease of RMB13.9 million, or 1.7%, compared to corresponding period in 2006. Overall gross margin was 46.5% for the six months ended 30th June, 2007, compared with 50.6% for the corresponding period of 2006. Net profit attributable to equity holders of the Company was RMB192.6 million for the six months ended 30th June, 2007 compared with RMB276.3 million for the corresponding period of 2006. Basic earnings per share was RMB15.46 cents, representing a decrease of 30.2% from RMB22.14 cents for the corresponding period of 2006.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the short-term bank loans by the total assets, as at 30th June, 2007 was 6.9% compared with 0.4% as at 31st December, 2006.

Management Discussion and Analysis

INDEBTEDNESS

As of 30th June, 2007, the Group had RMB190.4 million short-term bank loans compared with RMB10.0 million as at 31st December, 2006.

CONTINGENT LIABILITIES

The Company and a subsidiary have been named as defendants in a United States District Court action in respect of an alleged claim of trade secret misappropriation under the Illinois Trade Secrets Act (the "Complaint"). The Complaint seeks injunctive relief and damages for an unspecified amount. The Group believes that it has meritorious defenses to the Complaint and thus no provision for any potential liability has been made in the consolidated financial statement.

A hearing on the preliminary injunction began on 20th February, 2007 and a ruling in the Group's favour denying the motion was announced by the Court and thereafter formally filed by the Court on 13th March, 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June, 2007, the Group had RMB1,085.3 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB28.3 million. The Group had no long-term debt as at 30th June, 2007. 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 RMB, 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. The Group does not have a formal hedging policy. Management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise. The Group has entered into foreign exchange linked contracts to minimise the effect of exchange rate fluctuations between the RMB and the U.S. dollars.

CHARGES ON GROUP ASSETS

As at 30th June, 2007, no Group asset was under charge to any financial institution.

MATERIAL ACQUISITION OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

During the six months ended 30th June, 2007, the Group had no material acquisition and disposal.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Our future investment plan will focus on MEMS microphones, SMD microphones, linear vibrators, SMD vibrators, pancake vibrators, and speaker box plus antenna. We may also invest in other non-acoustic products if the suitable opportunity arises.

Management Discussion and Analysis

EMPLOYEE INFORMATION

As at 30th June, 2007, the Group employed 9,909 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, 2007.

PROSPECTS

Going forward, we will continue to enhance our research and development capabilities as well as our engineering expertise and manufacturing know-how so that we can continue to satisfy customers' requirements for smaller and better quality miniature components. We are proud of the fact that we started product shipment to a key global handset manufacturer in late July. Being qualified by this particular handset customer is a strong testimony to our superior technology platform, advanced precision manufacturing technologies and flexible production lines. We are confident that we can continue to win new customers in the future - not just mobile handset customers, but also customers from other industries such as game consoles and notebooks. Development of our new products (SMD vibrators, linear vibrators, pancake vibrators, MEMS microphones, SMD microphones, speaker box plus antenna, stereo handsfree) is on track and we expect sales of such new products to gain traction going forward. We are excited about the future as we expect strong growth in all our major product lines, in particular speakers, speaker modules and microphones. We will continue to develop new and more advanced technologies to cater to our customers' strict requirements for performance, quality and cost.

DEFINITIONS

"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

"SMD" Surface Mount Device which is readily fed into a SMT production line

Other Information

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

As at 30th June, 2007, 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 of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code 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. Benjamin Zhengmin Pan ("Mr. Pan") ⁽¹⁾	161,632,926	51,439,440	80,765,138	293,837,504	23.73%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") ⁽²⁾	212,940,886	—	80,765,138	293,706,024	23.72%
Mr. Koh Boon Hwee	1,307,562	—	—	1,307,562	0.11%
Mr. Li Xiang	42,441,887	—	—	42,441,887	3.43%
Mr. Kang Pei	12,000	—	—	12,000	0.001%

Notes:

- (1) Mr. Pan beneficially owns 161,632,926 shares. Mr. Pan is also deemed or taken to be interested in the following shares:
- (i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan;
 - (ii) 72,108,142 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 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.
- (2) Ms. Wu beneficially owns 212,940,886 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:
- (i) 72,108,142 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 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.

Other than as disclosed above, as at 30th June, 2007, 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, 2007, 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⁾	578,886,532(L)	46.76%
Ms. Wu ⁽²⁾	578,886,532(L)	46.76%
JP Morgan Chase & Co. ⁽³⁾	237,371,480(L)	19.17%
	73,266,200(L)	5.92%
Credit Suisse Group ⁽⁴⁾	93,600,000(L)	7.56%
	93,600,000(S)	7.56%
Emerging Markets Management, L.L.C.	63,544,000(L)	5.13%

- (1) Mr. Pan beneficially owns 161,632,926 shares. Mr. Pan is also deemed or taken to be interested in the following shares:
- (i) 51,439,440 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) 72,108,142 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 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.
- (2) Ms. Wu beneficially owns 212,940,886 shares. Ms. Wu is also deemed or taken to be interested in the following shares:
- (i) 72,108,142 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) 285,180,508 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.

Other Information

- (3) JP Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 237,371,480 shares of the Company.

Of these 237,371,480 shares, 73,266,200 shares are directly held by JP Morgan Chase Bank, N.A., which is a wholly-owned subsidiary of JP Morgan Chase & Co.; 11,232,000 shares are directly held by JF Asset Management Limited ("JF Asset"), JF Asset is a wholly-owned subsidiary of JP Morgan Asset Management (Asia) Inc. ("JP Morgan (Asia)") and JP Morgan (Asia) is a wholly-owned subsidiary of JP Morgan Asset Management Holdings Inc. ("JP Morgan Holdings"), which in turn is a wholly-owned subsidiary of JP Morgan Chase & Co.; 152,873,280 shares are directly held by J.P. Morgan Investment Management Inc. ("JP Morgan Investment"). JP Morgan Investment is a wholly-owned subsidiary of JP Morgan Holdings, which in turn is a wholly-owned subsidiary of JP Morgan Chase & Co..

Comprising 73,266,200 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.

- (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, 2007, 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, 2007, no options had been granted or agreed to be granted or outstanding under the SO Scheme of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the six months ended 30th June, 2007 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, 2007, the Company repurchased 10 million of its own shares.

CORPORATE GOVERNANCE

During the six months ended 30th June, 2007, 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 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 no 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, 2007.

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 consolidated interim financial statements for the six months ended 30th June, 2007.

Other Information

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.

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. Pei Kang. 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, 14th September, 2007