



# AAC Acoustic Technologies Holdings Inc.

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

## CONTENTS

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2	Corporate Information
4	Condensed Consolidated Income Statement
5	Condensed Consolidated Balance Sheet
6	Condensed Consolidated Statement of Changes in Equity
7	Condensed Consolidated Cash Flow Statement
8	Notes to the Condensed Financial Statements
17	Independent Review Report
18	Management Discussion and Analysis
21	Other Information

## CORPORATE INFORMATION

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Directors	<i>Executive Directors</i> Mr. Benjamin Zhengmin Pan <i>(Chief Executive Officer)</i> <i>Non-executive Directors</i> Ms. Ingrid Chunyuan Wu Mr. Yang Dong Shao Dr. Thomas Kalon Ng <i>Independent non-executive Directors</i> Mr. Koh Boon Hwee <i>(Chairman)</i> Dr. Dick Mei Chang Mr. Mok Joe Kuen Richard
Company Secretary	Ms. Lau Sim <i>(CPA, ACCA)</i>
Qualified Accountant	Ms. Lau Sim <i>(CPA, ACCA)</i>
Audit Committee	Mr. Mok Joe Kuen Richard <i>(Chairman)</i> Mr. Koh Boon Hwee Ms. Ingrid Chunyuan Wu
Remuneration Committee	Mr. Koh Boon Hwee <i>(Chairman)</i> Dr. Dick Mei Chang Dr. Thomas Kalon Ng
Nomination Committee	Dr. Dick Mei Chang <i>(Chairman)</i> Mr. Mok Joe Kuen Richard Mr. Yang Dong Shao
Authorized Representatives	Mr. Benjamin Zhengmin Pan Ms. Lau Sim <i>Alternative authorized representative</i> Mr. Mok Joe Kuen Richard
Compliance Advisor	Goldbond Capital (Asia) Limited 39th Floor, Tower 1 Lippo Centre 89 Queensway Hong Kong
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>

## CORPORATE INFORMATION

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 Hung Hom 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	<a href="http://www.aacelectr.com">www.aacelectr.com</a>

## CONDENSED CONSOLIDATED INCOME STATEMENT

### INTERIM RESULTS

The board of directors (the "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, 2005 together with the unaudited comparative figures for the corresponding period in 2004. 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	1st January, 2005 to 30th June, 2005 (Unaudited) RMB'000	1st January, 2004 to 30th June, 2004 (Unaudited) RMB'000
Turnover		436,331	285,331
Cost of goods sold		(229,662)	(143,132)
Gross profit		206,669	142,199
Other operating income		3,056	2,531
Distribution and selling expenses		(19,084)	(13,702)
Administrative expenses		(41,976)	(23,942)
Profit from operations	4	148,665	107,086
Finance costs		(5,525)	(2,106)
Profit before taxation		143,140	104,980
Taxation	5	(9,483)	(11,381)
Net profit for the period		133,657	93,599
Attributable to:			
Equity holders of the Company		133,195	93,174
Minority interests		462	425
		133,657	93,599
Dividends	6	—	114,657
Earnings per share — Basic	7	13.93 cents	9.75 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	As at 30th June, 2005 (Unaudited) RMB'000	As at 31st December, 2004 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	8	263,228	211,939
Land use rights		12,052	12,586
Deposits made on acquisition of property, plant and equipment		16,911	13,560
		292,191	238,085
<b>Current assets</b>			
Inventories		95,710	80,545
Trade and other receivables	9	330,987	253,532
Amounts due from related companies		31	2,324
Taxation recoverable		351	357
Restricted bank deposits		13,306	4,145
Bank balances and cash		172,463	246,321
		612,848	587,224
<b>Current liabilities</b>			
Trade and other payables	10	164,583	112,295
Amounts due to related companies		21,780	29,936
Dividend payable		40,252	103,301
Taxation payable		16,410	17,490
Short-term bank loans	11	82,742	82,742
		325,767	345,764
Net current assets		287,081	241,460
Total assets less current liabilities		579,272	479,545
<b>Non-current liabilities</b>			
Redeemable convertible preferred shares	12	219,750	219,750
Net assets		359,522	259,795
<b>Capital and reserves</b>			
Paid-in capital	13	7,482	37,780
Reserves		352,040	219,014
Equity attributable to equity holders of the Company		359,522	256,794
Minority interests		—	3,001
Total equity		359,522	259,795

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*For the six months ended 30th June, 2005*

	Paid-in capital 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, 2005	37,780	(5,769)	(1,104)	2,822	31,938	191,127	256,794	3,001	259,795
Arising on group reorganisation	(30,298)	(1,700)	—	—	21	641	(31,336)	(3,463)	(34,799)
Exchange differences arising from translation of financial statements of overseas operations not recognised in income statement	—	—	869	—	—	—	869	—	869
Net profit for the period	—	—	—	—	—	133,195	133,195	462	133,657
Capitalisation of retained profits	—	—	—	84,423	—	(84,423)	—	—	—
At 30th June, 2005	7,482	(7,469)	(235)	87,245	31,959	240,540	359,522	—	359,522
At 1st January, 2004	75,845	—	(664)	2,583	22,917	171,655	272,336	32,627	304,963
Capital contributions	4,304	—	—	—	—	—	4,304	—	4,304
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
Exchange differences arising from translation of financial statements of overseas operations not recognised in income statement	—	—	188	—	—	—	188	—	188
Net profit for the period	—	—	—	—	—	93,174	93,174	425	93,599
Dividends	—	—	—	—	—	(114,657)	(114,657)	—	(114,657)
At 30th June, 2004	33,807	(5,769)	(467)	2,822	24,521	94,065	148,979	2,736	151,715

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th June, 2005*

	1st January, 2005 to 30th June, 2005 (Unaudited) RMB'000	1st January, 2004 to 30th June, 2004 (Unaudited) RMB'000
Net cash from operating activities	109,515	64,584
Net cash used in investing activities	(75,396)	(36,937)
Net cash used in financing activities	(108,018)	(26,743)
Net (decrease) increase in cash and cash equivalents	(73,899)	904
Cash and cash equivalents at 1st January	246,321	108,219
Effect of foreign exchange rate changes	41	123
Cash and cash equivalents at 30th June	172,463	109,246
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	172,463	109,246



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2005*

### 1. BASIS OF PREPARATION

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

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 4th December, 2003 and acts as an investment holding company. Through a group reorganisation to rationalise the structure of 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 condensed financial statements have been prepared using the principles of merger accounting.

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

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's financial information for the year ended 31st December, 2004 as set out in the Prospectus.

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

IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

In addition, amendments to IAS 19 "Employee benefits" and amendments to IAS 39 "Financial instruments: recognition and measurement" have been issued but not yet effective.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has commenced considering the potential impact of the above new and amendments to IFRSs but is not yet in a position to determine whether these new and amendments to IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new and amendments to IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 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 operation is regarded as a single segment, engaged in the manufacture and sales of acoustic related products.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Geographical segments

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

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
<b>Turnover</b>		
United States of America	130,535	113,302
Greater China	233,936	137,231
Asia (excluding Greater China)	46,901	16,283
Europe	24,959	18,515
	<b>436,331</b>	<b>285,331</b>
<b>Results</b>		
Profit from operations		
— United States of America	48,319	50,135
— Greater China	77,297	46,531
— Asia (excluding Greater China)	15,226	3,611
— Europe	7,823	6,809
	<b>148,665</b>	<b>107,086</b>
Finance costs	(5,525)	(2,106)
Profit before taxation	143,140	104,980
Taxation	(9,483)	(11,381)
Net profit for the period	<b>133,657</b>	<b>93,599</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 4. PROFIT FROM OPERATIONS

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation	14,434	10,386
Less: Depreciation included in research and development costs	(737)	(272)
	13,697	10,114
Allowance for bad and doubtful debts	812	—
Loss on disposal of property, plant and equipment	—	61

### 5. TAXATION

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
The charge comprises:		
Hong Kong Profits Tax at 17.5% on the estimated assessable profit for the period	(328)	—
PRC Income Tax	(9,148)	(11,375)
Overseas taxation	(7)	(6)
	(9,483)	(11,381)

No provision for Hong Kong Profits Tax has been provided as the Group has no assessable profit arising in Hong Kong for the prior period.

Pursuant to the relevant laws and regulations in the People's Republic of China (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 FINANCIAL STATEMENTS

### 6. 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	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
常州美歐電子有限公司 (American Audio Components (Changzhou) Ltd.)	—	95,754
常州開泰機電製造有限公司 (Changzhou Kaitai Machinery Electronics Co., Ltd.)	—	6,555
常州威利來電子音響器件有限公司 (Changzhou Weililai Electronics Acoustic Device Co., Ltd.)	—	10,872
YEC Electronics Limited	—	1,476
	—	114,657

### 7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2005 is based on the net profit for the period attributable to the equity holders of the Company of RMB133,195,000 (2004: RMB93,174,000) and on the 955,996,860 shares in issue during the period 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 as assuming the conversion of redeemable convertible preferred shares would result in an increase in earnings per share.

### 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB70 million (2004: RMB74 million) on acquisition of property, plant and equipment.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 9. TRADE AND OTHER 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 at the balance sheet date:

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
<b>Age</b>		
Not yet due	274,024	229,872
Overdue 0–90 days	28,238	2,866
Overdue 91–180 days	510	1,185
Overdue over 181 days	1,340	139
	304,112	234,062
Allowance for bad and doubtful debts	(1,646)	(834)
Trade receivables	302,466	233,228
Other receivables	28,521	20,304
	330,987	253,532

### 10. TRADE AND OTHER PAYABLES

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

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
<b>Age</b>		
Not yet due	94,855	65,530
Overdue 0–90 days	14,110	2,628
Overdue 91–180 days	915	282
Overdue 181 to 365 days	10	39
Overdue over 365 days	48	383
Trade payables and notes payables	109,938	68,862
Other payables	54,645	43,433
	164,583	112,295

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 11. SHORT-TERM BANK LOANS

During the period, the Group raised new short-term bank loans of RMB83 million (2004: RMB74 million) and made repayments of RMB83 million (2004: RMB52 million). The short-term bank loans at 31st December, 2004 and 30th June, 2005 are unsecured and carry interests at rates ranging from 3.88% to 5.31% and 4.70% to 5.22%, respectively.

### 12. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
Liability component		
— Series A preferred shares	87,529	87,529
— Series B preferred shares	132,221	132,221
	219,750	219,750

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 are unsecured, carry interest at the London InterBank Offered Rate plus 1 percent and compounded quarterly and shall be payable at time of redemption.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 13. PAID-IN CAPITAL

The paid-in capital of the Group at 31st December, 2004 represented the aggregate paid-in capital of the Company excluding Series A preferred shares and Series B preferred shares (see note 12) and 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.

	Ordinary shares	Number of shares Series A preferred shares	Series B preferred shares	Amount US\$'000
Authorised:				
Ordinary shares of US\$1 each				
— at 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")	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 and 30th June, 2005	18,500,000	1,500,000	1,000,000	2,100
Issued and fully paid:				
Shares of US\$1 each				
— at 1st January, 2004	50,000	—	—	50
— effect on Sub-division	450,000	—	—	—
Shares of US\$0.10 each				
— issued upon Group Reorganisation	8,540,000	—	—	854
— issued for cash	—	960,000	784,314	174
— at 31st December, 2004 and 30th June, 2005	9,040,000	960,000	784,314	1,078
				RMB'000
Shown in the balance sheet at 30th June, 2005 as*				7,482

\* In accordance with the IFRS, the carrying amount of Series A preferred shares and Series B preferred shares are presented as the liability component in the consolidated balance sheet (see note 12).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 14. CAPITAL COMMITMENTS

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	49,209	12,559

### 15. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
Companies controlled by substantial shareholders of the Company	Sales of goods	52	373
	Purchase of raw materials	7,916	7,657
	Purchase of property, plant and equipment	—	6,032
	Equipment rentals paid	200	—
	Property rentals paid	3,162	1,493
	Sales of scrap materials	—	41
	Proceeds from disposal of property, plant and equipment	—	192
Substantial shareholders	Property rentals paid	1,567	653

### 16. POST BALANCE SHEET EVENTS

The following events took place subsequent to 30th June, 2005:

- (a) Pursuant to written resolutions of the shareholders of the Company dated 15th July, 2005:
- (i) each share of US\$0.10 each in the Company was sub-divided into 10 shares of US\$0.01 each;
  - (ii) 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 shares of US\$0.01 each;
  - (iii) the conversion of all the redeemable convertible preferred shares into ordinary shares of the Company was approved; and
  - (iv) the capitalisation of 865,596,860 shares of US\$0.01 each was approved.
- (b) The Company's shares were listed on the Main Board of the Stock Exchange on 9th August, 2005.

## INDEPENDENT REVIEW REPORT

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TO THE 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 4 to 16.

### 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.

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" ("SAS 700") 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.

### 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, 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June, 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
*Hong Kong*  
5th September, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

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### OVERVIEW

The Group is principally engaged in the design and production of miniature acoustic components, which include miniature receivers, speakers, microphones, transducers and vibrators used in mobile phone handsets, MP3 players and other consumer handheld devices. The Directors believe that the competitive strengths of the Group have positioned itself to capitalise on the expected growth in the mobile phone handsets industry.

### MARKET REVIEW

The market for mobile phone handsets, mobile phone hands-free sets, portable MP3 players and other portable consumer electronics products, continues to grow. New handset models being introduced incorporate new platforms with more value added acoustic features. These trends are driving the growth in demand for miniature acoustic components.

### FINANCIAL REVIEW

Turnover for the Group grew 52.9% to RMB436.3 million for the six months ended 30th June, 2005 compared to RMB285.3 million for the corresponding period of 2004.

Gross margin was 47.4% for the six months ended 30th June, 2005 compared to 49.8% for the corresponding period of 2004.

Net profit attributable to equity holders of the Company for the Group was RMB133.2 million for the six months ended 30th June, 2005 compared to RMB93.2 million for the corresponding period of 2004.

### INDEBTEDNESS

As of 30th June, 2005, the Group had total outstanding borrowings of RMB302.5 million, comprising redeemable convertible preferred shares of RMB219.8 million and short term bank loans of RMB82.7 million.

The redeemable convertible preferred shares were converted into shares of the Company pursuant to the Company's shareholders written resolutions dated 15th July, 2005.

### CONTINGENT LIABILITIES

As of 30th June, 2005, the Group had no material contingent liabilities.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operation is generally financed by shareholders' fund, cash inflows generated from operations and short term bank borrowings.

As of 30th June, 2005, the Group's net working capital, defined as the difference between current assets and current liabilities, was RMB287.1 million, representing an increase of 19% as compared to that as of 31st December, 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

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As of 30th June, 2005, the Group had net assets of RMB359.5 million, representing a rise of 38% over that as of 31st December, 2004.

As of 30th June, 2005 and 31st December, 2004, the gearing ratio was 0.95 times and 1.56 times respectively. The gearing ratio is defined as the aggregate of short term bank borrowings, dividend payable and redeemable convertible preferred shares to total equity.

The Directors are of the opinion that the Group's existing credit lines, together with cash generated from operations and existing cash and bank balance, will be sufficient to finance the working capital for the Group's present requirement.

### FOREIGN EXCHANGE

The majority of the Group's sales, purchases and operating expenses were denominated in Renminbi, U.S. dollars, Japanese yen and Hong Kong dollars. The Directors believe that the Group has been and will continue to be exposed to foreign currency exchange risks but they do 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 period.

### CHARGES ON GROUP ASSETS

As at 30th June, 2005, no Group asset was under charge to any financial institution.

### MATERIAL ACQUISITION OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

Other than the Group Reorganization as described in the Prospectus, the Group had no material acquisition and disposal during the six months ended 30th June, 2005.

### FUTURE PLANS FOR MATERIAL INVESTMENTS

During the six months ended 30th June, 2005, 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.

### EMPLOYEE INFORMATION

As of 30th June, 2005, the Group employed 4,845 permanent employees worldwide. For other details of the headcount and training information of employees, please refer to the Prospectus.

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 work performance of its staff.

## MANAGEMENT DISCUSSION AND ANALYSIS

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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.

### DIVIDEND POLICY

The dividend policy of the Company will be determined and reviewed from time to time by the Board. The Directors may declare dividends after taking into account, among other things, results of operations, financial conditions, operating and capital requirements of the Group, and other factors that the Board deems relevant.

### PROSPECTS

The Group remains optimistic about the business for the rest of the year. The demand from both existing and new customers continue to grow, especially for new platform products. Moreover, the second half of the year is seasonally stronger.

## OTHER INFORMATION

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The Company was listed on 9th August, 2005. No disclosure of beneficial interests or short positions of Directors or chief executives in any shares or underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as of 30th June, 2005.

As at 18th August, 2005, after the Listing and after the exercise of the over-allotment option by the global co-ordinator, the beneficial interests and short positions of the Directors and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register 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 the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of Director/Chief Executive	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Benjamin Zhengmin Pan <sup>(1)</sup>	Beneficial owner, interest of children under 18; trustee and interest of controlled corporation	637,092,532	51.05%
Ms. Ingrid Chunyuan Wu <sup>(2)</sup>	Beneficial owner, interest of children under 18 and trustee	637,092,532	51.05%
Mr. Yang Dong Shao <sup>(3)</sup>	Interest of controlled corporation	51,215,988	4.10%
Mr. Koh Boon Hwee	Beneficial owner	1,307,562	0.10%
Mr. Li Xiang	Beneficial owner	61,941,887	4.96%

Notes:

- (1) Mr. Benjamin Zhengmin Pan ("Mr. Pan") beneficially owns 218,520,634 shares. Mr. Pan is also deemed or taken to be interested in the following shares for the purposes of the SFO:
- (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;
  - (iii) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Ingrid Chunyuan Wu's ("Ms. Wu") 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; and
  - (iv) 285,049,028 shares which are beneficially owned by Ms. Wu as Mr. Pan is Ms. Wu's spouse.
- (2) Ms. Wu beneficially owns 209,828,594 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:
- (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;

## OTHER INFORMATION

- (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; and
  - (iii) 343,386,508 shares beneficially owned by Mr. Pan, as Ms. Wu is Mr. Pan's spouse.
- (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 for the purposes of the SFO.

Save as disclosed above, as at 18th August, 2005, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The Company was listed on 9th August, 2005. No disclosure of beneficial interests or short positions in any shares or underlying shares of the Company were made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as of 30th June, 2005.

As at 18th August, 2005, after the completion of the Listing and after the exercise of the over-allotment option by the global co-ordinator, the Directors were not aware of any persons (who are not Directors or chief executive) who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who has interest in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

### SHARE OPTION SCHEME

As at the date of this report, no options had been granted or agreed to be granted or outstanding under Share Option Scheme of the Company (the "SO Scheme"). For details of the SO Scheme, please refer to the Prospectus.

### DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations" and "Share option scheme", at no time during the Period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## OTHER INFORMATION

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### PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Since the Listing, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Shares of the Company.

### CORPORATE GOVERNANCE

From the date of the Listing to the date of this report, the Company has complied with the code provisions of the "Code on Corporate Governance Practices" as set out in Appendix 14 to the Listing Rules (the "CG Code").

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 standard set out in the Model Code contained in Appendix 10 to the Listing Rules.

All 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 standard as set out in the Model Code and the Company's code of conduct regarding Directors' securities transaction.

### 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, 2005.

#### 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

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### 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, 2005