2008 Annual Report

AAC Acoustic Technologies Holdings Inc.

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

Contents

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 *(Resigned on 2nd January, 2009)*

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 *(Resigned on 2nd January, 2009)*
Mr. Pei Kang *(Appointed on 7th April, 2009)*

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

Continuing Financial Advisor

Piper Jaffray Asia Limited
39th Floor, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Registered Office

Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Place of Business in Hong Kong

Unit 2003, 20/F.
100 Queen's Road Central
Central, 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
Cayman Islands

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
The Hongkong and Shanghai Banking Corporation
Ltd, Hung Hom Branch

Stock Code

2018

Website

www.aacacoustic.com

Chairman Statement

Dear Shareholders,

2008 had been an exciting year before the end of the third quarter when the financial tsunami hit the global economy. In spite of the world wide economic downturn that ensued, AAC Acoustic Technologies Holdings Inc. ("AAC" or the "Company") managed to turn in a healthy financial performance for the fiscal year 2008.

We managed to end the year with increased in sales revenue and gross profit. Our sales revenue reached a record high of RMB2,256.0 million, 15.6% higher than our 2007 sales revenue of RMB1,952.2 million. Our overall gross profit also rose to a record high of RMB940.5 million, representing an increase of 1.8% over 2007 gross profit of RMB923.5 million. During 2008, we booked a net profit for equity holders of RMB590.4 million, which was 7.1% higher than RMB551.1 million in 2007. Basic earnings per share for 2008 were RMB48.01 cents versus RMB44.37 cents for 2007.

The Board proposed to recommend the payment of a final dividend for the year ended 31st December, 2008 of HK10.9 cents per ordinary share, representing a payout ratio of about 20%.

During 2008, we recorded a gross margin of 41.7% and booked a net profit margin of 26.2%. The decline in gross margin and net margin was primarily due to foreign currency depreciation impact, including both the US dollar and Euro. Secondly, different product mix was another contribution factor. Thirdly, lower production utilization due to lower demand of mobile handsets, in line with the global economic slowdown also affected margins in the fourth quarter of 2008.

Considering the unfavorable economic conditions, AAC still maintained a strong balance sheet. By end 2008, we had a total of RMB1.3 billion in cash and bank balances, and our net cash position was RMB1.2 billion.

Highlights of 2008 achievements:

- Increased market share in existing leading global mobile phone customers
- Increased market share at leading portable game console customer
- Successfully gained new business at leading Smart Phone customers
- Successfully penetrated into notebook market
- Successfully combined both RF and Acoustic technologies as a total speaker module solution
- Established new AAC R&D center and Sales office in Singapore
- Established new AAC R&D center and Sales office in South Korea
- Successfully launched Continuous Improvement Program across all operations

AAC remains committed to leading technology advancement, and the development of in-house intellectual properties. In 2008, we successfully obtained 43 additional patents bringing our portfolio to a total of 98 patents. In 2008, we filed another 161 patents pending, which brings to a total of 182 patents pending by the end of 2008. We also intend to strengthen our technology portfolio via acquisitions. Our management team is committed to seeking out appropriate acquisition targets all over the world which can help to further strengthen the Company's existing technology base. In 2008, we acquired an ASIC design house which aids the development of our acoustic solution strategy.

To position ourselves for long term growth, we will continue to do further research in the design and packaging of MEMS, Low Temperature Co-fired Ceramic (LTCC) technology for speakers, haptic vibrators, Radio Frequency (RF) antenna, Band Pass Filters (BPF), Light Emitting Diode (LED) packaging and RF module substrates as well as the design and technologies related to active noise-cancellation, sound projection, related digital processing methods and software development.

We are confident about our future markets. As the markets become more competitive, audio quality in mobile handsets and other consumer electronic devices is becoming increasingly important. This drives the need for more advanced and cost effective acoustic components solutions, including integrating speaker modules with RF capabilities. AAC is well-positioned to further capture market share as one of the few companies in the world that can combine acoustic technology research with product development capabilities, engineering expertise, and manufacturing know-how to provide the most advanced acoustic-wireless component solutions in the business. Moreover, we intend to leverage on our existing technology platform, customer base and manufacturing know-how to go beyond acoustics, to launch more non-acoustic miniature components. Ultimately, AAC's goal is to become the world's leading total acoustic-wireless solution provider.

Koh Boon Hwee
Chairman

7th April, 2009

Management Discussion and Analysis

Overview

We are one of the world's leading manufacturers of miniature acoustic components. The Company designs, manufactures and distributes a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, transducers and headsets for using in mobile handsets, game consoles, notebook computers and other consumer electronics devices such as MP3 players and MP4 players. Besides continuous development of in-house intellectual properties, we also intend to strengthen our technology portfolio via acquisitions. Our management team is committed to seeking out appropriate acquisition targets all over the world which can help to further strengthen the Company's existing technology base. In 2008, we acquired an ASIC design house which aids in the development of our acoustic-wireless solution strategy.

Market Review

2008 had been an exciting year. We continued to sustain stable revenue growth before the global financial tsunami which affected the 4th quarter mobile phone worldwide market. In spite of the worldwide economic downturn, the Company managed to sustain healthy financial performance for the fiscal year 2008.

The Company will continue to expand market reach to including notebooks, digital cameras and camcorders, MP3 and MP4 players. We will leverage on our existing technology platforms, and manufacturing know-how to extend our traditional business beyond acoustics. As such, the Company continues to invest in key technologies to facilitate this commitment.

The Company remains committed to leading technology advancement, and the development of in-house intellectual properties. In 2008, we have successfully obtained 43 additional patents bringing our portfolio to a total of 98 patents. In 2008, we filed another 161 patents pending, which brings to a total of 182 patents pending by the end of 2008.

Financial Review

We experienced a challenging year in 2008, but we still maintained a strong financial position, as we generated RMB798.3 million in net cash flows from operations for the year ended 31st December, 2008. Revenue of the Group for the year ended 31st December, 2008 amounted to RMB2,256.0 million, representing an increase of 15.6% from RMB1,952.2 million for the previous year. Gross profit amounted to RMB940.5 million, representing an increase of 1.8% from RMB923.5 million for the previous year. Profit attributable to equity holders of the Company amounted to RMB590.4 million, representing an increase of 7.1% from RMB551.1 million for the previous year. Basic earnings per share amounted to RMB48.01 cents, representing an increase of 8.2% from RMB44.37 cents for the previous year.

Gearing Ratio

The gearing ratio of the Group, computed by dividing the short-term bank loans, by the total assets, as at 31st December, 2008 was 5.4% compared to 5.7% as at 31st December, 2007.

Indebtedness

As at 31st December, 2008, the Group had RMB200.3 million short-term bank loans compared with RMB182.3 million as at 31st December, 2007.

Liquidity, Financial Resources and Capital Structure

As at 31st December, 2008, the Group had RMB1,266.0 million in cash and cash equivalents. In addition, the Group had pledged short-term bank deposits of RMB16.6 million. The Group had no long-term debt as at 31st December, 2008. 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 operational capital requirements of the Group.

Foreign Exchange

The majority of the Group's sales, purchases and operating expenses were denominated in RMB, US 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 risk. 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. From the year of 2006, the Group has entered into foreign exchange linked contracts to minimise the effect of exchange rate fluctuations between RMB and US dollars.

Charges on Group Assets

As at 31st December, 2008, none of the Group's assets was charged to any financial institution. (2007: Nil)

Material Acquisitions or Disposals of Subsidiaries and Associated Company

In January 2008, the Group completed its acquisition of the entire paid-in capital of 深圳市美歐電子有限公司 (Shenzhen Meiou Electronic Co., Ltd.) ("Shenzhen Meiou"), a company which close family members of a substantial shareholder has beneficial interest in, for a total consideration of RMB120,000,000.

In August 2008, the Group acquired 51% of the issued share capital of 北京東微世紀科技有限公司 ("Beijing Technology") for a consideration of RMB1,750,000 from an independent third party.

Save as disclosed above, the Group had no material acquisition or disposal of any subsidiaries and associated companies for the year ended 31st December, 2008.

Investments in Technology and New Products

Future plans for investments will focus on MEMS technology (microphones and accelerometers). These research investments include the design, and packaging of MEMS (including use of LTCC materials) as well as technologies related to active noise-cancellation, sound projection, related digital processing methods and software development.

We continue our focus on further investments in LTCC technology for speakers, haptic vibrators, RF antenna, BPF, LED packaging, MEMS packaging and RF module substrates. With these investments, we will be able to bridge the technology gap to embed ceramic wireless antenna and BPF directly onto a substrate for a more complete acoustic-wireless module product solution, increasing the Company's total available market value and accessibility.

Employee Information

As at 31st December, 2008, the Group employed 9,928 (2007: 10,762) permanent employees. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises the work performance of its staff.

Employee remuneration includes salaries, allowances, social insurance or mandatory pension fund. As required by the relevant regulations in the PRC, 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, Taiwan, USA and Europe.

Prospects

With a much more diversified customer and market base, we are well-positioned for stronger growth. Leverage on our strengths in research and development capabilities and our ability to ramp up new product platforms quickly, we are able to make use of our fully automated and semi-automated manufacturing processes to realize a fully vertically-integrated production model for increasingly complex acoustic-wireless solutions. We will drive ourselves to be qualified acceptance into both mobile handset customers as well as non-mobile handset customers such as companies that design and manufacture game consoles, notebook computers, and MP3 and MP4 players. We intend to go beyond acoustics and launch more non-acoustic miniature components in the near future. Ultimately, our goal is to become the world's leading acoustic-wireless solution provider of a large variety of miniature components for use in different kinds of consumer electronic devices.

Dividends

From time to time, the Company will consider its financial position, results of operations, debt repayment ability, capital expenditures, Group's earnings and other factors as the Board may deem appropriate. The Board may recommend the amount of dividends to be declared and the declaration and payment of dividends will be determined by the shareholders in general meeting.

The Board recommended the payment of a final dividend of HK10.9cents per ordinary share in respect of the year ended 31st December, 2008. This represents a payout ratio of about 20% of the profit for the year.

Definitions

"MEMS"	Micro Electro Mechanical Systems ("MEMS") is based on semiconductor technology which uses silicon to create pathways for electricity within components.
"ASIC"	Application Specific Intergrated Circuits which is an integrated circuit (IC) customized for a particular use, rather than intended for general-purpose use.

Executive Director

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 40, is an Executive Director and Chief Executive Officer of the Company. Mr. Pan co-founded our Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing our Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing, and other functions including quality assurance, finance and human resources. Mr. Pan has been instrumental in spearheading our Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and Chief Executive Officer of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing of our polyphonic speakers, miniature receivers, transducers and Electret Condenser Microphones. Mr. Pan graduated from the 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is spouse of Ms. Ingrid Chunyuan Wu.

Save as disclosed above, Mr. Pan does not have any relationships with other Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Pan did not hold other directorship in any public listed companies in the last three years but he has directorship in a number of subsidiaries of the Company.

Mr. Pan has entered into a service agreement with the Company for a term of three years commencing from 15th July, 2008, which can be terminated by either party giving not less than 60 days' notice in writing or 60 days' payment in lieu of notice to the other party. He is entitled to a basic salary of approximately US$200,000 per year (which covered by the service agreement) and will be paid monthly in arrears which is determined upon negotiation between Mr. Pan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions and which is subject to review periodically as determined by the Company.

The interests of Mr. Pan in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Benjamin Zhengmin Pan	beneficial owner, interest of spouse and children under 18	578,886,532 (Note)	47.14%

Note:
Mr. Pan beneficially owns 69,512,565 shares. Mr. Pan is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan;

(ii) *320,820,525 shares which are beneficially owned by Ms. Wu as Mr. Pan is her spouse;*

(iii) *132,375,158 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*

(iv) *4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.*

Save as disclosed above, Mr. Pan does not have 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Non-executive Directors

Ms. Ingrid Chunyuan Wu ("Ms. Wu"), aged 38, is a Non-Executive Director of the Company. Ms. Wu co-founded our Group in 1993. In 1996, she co-founded and later became Chief Financial Officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, Changzhou AAC in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as our Chief Operating Officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is the spouse of Mr. Pan.

Save as disclosed above, Ms. Wu does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Ms. Wu did not hold other directorship in any public listed companies in the last three years but she has directorship in a number of subsidiaries of the Company.

Ms. Wu has entered into a letter of appointment with the Company for a term of two years commencing from 16th April, 2007, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. She is entitled to the director's fee of HK$110,000 per year (which covered in the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Wu and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

The interests of Ms. Wu in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Ms. Ingrid Chunyuan Wu	beneficial owner, interest of spouse and children under 18	578,886,532 (Note)	47.14%

Note:
Ms. Wu beneficially owns 320,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) *51,439,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Benjamin Zhengmin Pan ("Mr. Pan"), therefore, 51,439,440 shares are deemed to be owned by Ms. Wu as she is Mr. Pan's Wife;*

(ii) *69,512,565 shares which are beneficially owned by Mr. Pan as she is his spouse;*

(iii) *132,375,158 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*

(iv) *4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.*

Save as disclosed above, Ms. Wu does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Pei Kang ("Mr. Kang"), aged 51, has been appointed to our Board since February 2007. He has over 25 years of working experience in the technology industry, including over 18 years of experience in various technical and management positions with IBM. He is currently a Managing Partner of Chengwei Ventures Shanghai LLC, a venture capital investment firm that focuses on investing in companies in China. Mr. Kang received a Bachelor of Science degree from Chinese Culture University, Taipei.

Save as disclosed above, Mr. Kang does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Kang did not hold other directorship in any public listed companies in the last three years and he does not hold any other position in the Group.

Mr. Kang has entered into a letter of appointment with the Company for a term of two years commencing from 15th February, 2009, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to a director's fee of HK$95,000 per year (which covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Kang and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. On 7th April 2009, Mr. Kang was appointed as member of remunerations committee and his emolument increased to HK$115,000 per year which with effect from the same date.

The interests of Mr. Kang in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Pei Kang	Joint interest	12,000	0.001%

Save as disclosed above, Mr. Kang does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Dr. Thomas Kalon Ng ("Dr. Ng"), aged 55, has been appointed to our Board since November 2004 and resigned with effect from 2nd January, 2009. Dr. Ng has many years of management and investment experience in the high-technology industry. He is currently the Managing Director of Granite Global Ventures. He was the founder of Venture TDF in Singapore. Dr. Ng has advised the Government of Singapore in its development of "technopreneurship" and served on its advisory board. Dr. Ng has held senior management positions at Solar Energy Research Institute, E.I. DuPont de Nemours & Co. and Genelabs Technologies. Dr. Ng currently serves on the Board of Director for HYB Co., Ltd. He was a former board member of Oculex (acquired by Allergan). Dr. Ng earned a Bachelor's degree of Science in Bacteriology in 1975, a Master's degree of Science in Bacteriology in 1977 and a Doctor's degree in Bacteriology and Biochemistry in 1981 from the University of Wisconsin at Madison in the USA.

Dr. Ng does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Dr. Ng did not hold other directorship in any public listed companies in the last three years and he does not hold any other position in the Group.

Dr. Ng has entered into a letter of appointment with the Company for a term of two years commencing from 16th April, 2007, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to the director's fee of HK$95,000 per year (which covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dr. Ng and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. During the year, Dr. Ng waived his emoluments which amounted to RMB84,000.

Save as disclosed above, Dr. Ng does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Independent Non-executive Directors

Mr. Koh Boon Hwee ("Mr. Koh"), aged 58, is the Chairman of the Company. Mr. Koh has been appointed to our Board since November 2004. Mr. Koh brings with him extensive management experience and leadership. He is currently an Executive Director of MediaRing Limited, Chairman of Sunningdale Tech Ltd and Chairman of DBS Group Holdings Ltd and DBS Bank Ltd. Mr. Koh is also a Director of Temasek Holdings (Pte) Ltd, Yeo Hiap Seng Limited and Yeo Hiap Seng (Malaysia) Berhad. Mr. Koh also sits on the Board of Agilent Technologies, Inc. Mr. Koh is also the Chairman of the Nanyang Technological University Board of Trustees. Mr. Koh has over 20 years of experience in the IT-related and electronics industries. Mr. Koh was previously Chairman of Singapore Airlines Ltd (2001–2005), SIA Engineering Company Ltd (2003–2005), Singapore Telecom Group and its predecessor organizations (1986–2001), Omni Industries Ltd (1996–2001), Executive Chairman of Wuthelam Holdings Pte Limited (1991–2000) and, before that, Managing Director of Hewlett Packard Singapore (1985–1990), where he started his career in 1977. Mr. Koh graduated from the Imperial College, University of London, with a Bachelor's Degree (First Class Honours) in Mechanical Engineering. Mr. Koh also holds a Master's Degree in Business Administration (Distinction) from Harvard Business School. Mr. Koh was awarded Singapore's Public Service Star in 1991, the Meritorious Service Medal in 1995, and the Distinguished Service Order in 2008 by the President of Singapore.

Mr. Koh does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Koh did not hold other directorship in any public listed companies in the last three years and he does not hold any other position in the Group.

Mr. Koh has entered into a letter of appointment with the Company for a term of two years commencing from 16th April, 2007, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to the director's fee of HK$165,000 per year (which covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Koh and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

The interests of Mr. Koh in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), was as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Koh Boon Hwee	beneficial owner	1,307,562	0.11%

Save as disclosed above, Mr. Koh does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Dr. Dick Mei Chang ("Dr. Chang"), aged 69, has been appointed to our Board since November 2004. Dr. Chang is currently Chairman of Avago Technologies, a privately held semiconductor company headquartered in the USA and Singapore. Dr. Chang has over 30 years of experience in the development, manufacturing and marketing of semiconductor products. He joined Hewlett-Packard ("HP") Company in 1967 as a member of the technical staff at HP Labs. Over the years, he held several managerial positions within the Semiconductor Products Group of HP. In 1999, the Semiconductor Products Group was spun off from HP and became part of Agilent Technologies, Inc ("Agilent"). Dr. Chang became Senior Vice President and General Manager of the Semiconductor Products Group of Agilent in 2002. Dr. Chang received a Bachelor's degree in physics from the California Institute of Technology and a Doctor's degree in applied physics from Stanford University.

Dr. Chang does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Dr. Chang did not hold other directorship in any public listed companies in the last three years and he does not hold any other position in the Group.

Dr. Chang has entered into a letter of appointment with the Company for a term of two years commencing from 16th April, 2007, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to the director's fee of HK$125,000 per year (which covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dr. Chang and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

Save as disclosed above, Dr. Chang does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 45, has been appointed to our Board since April 2005. Mr. Mok is currently a Director at Ulmus Investment Limited, a Hong Kong-based private investment company. With over 21 years of experience in finance, Mr. Mok is a Hong Kong certified public accountant and a chartered accountant in the United Kingdom. Mr. Mok graduated from the London School of Economics and Political Science, London University.

Mr. Mok does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Mok did not hold other directorship in any public listed companies in the last three years and he does not hold any other position in the Group.

Mr. Mok has entered into a letter of appointment with the Company for a term of two years commencing from 16th April, 2007, which can be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to the director's fee of HK$145,000 per year (which covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Mok and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

Save as disclosed above, Mr. Mok does not hold 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, including interests and short position which they are deemed or taken to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Senior Management

Mr. Du Kuang-Yang (杜光洋) ("Mr. Du"), aged 59, is the Chief Operating Officer of the Company. Mr. Du has over 30 years' managerial experience in electronics manufacturing industry. From 2001 to 2005, Mr. Du was Vice President of Supply Chain Management of Solectron (Suzhou) Technology Co., Ltd.. From 1988 to 2001, Mr. Du worked for Motorola's various subsidiaries where he was the Managing Director of components products sector for Motorola's Tianjin subsidiary and General Manager of Personal Communication Sector for Motorola's Taiwan subsidiary. Mr. Du obtained a certificate in business administration from the National Taichung Institute of Technology (previously known as 台灣省立台中商業專科學校 (Taiwan Provincial School of Commerce of Tai-Chung)) in Taiwan in 1971. Mr. Du joined the Group in March 2005.

Mr. Stephen Sung Him Chan (陳崇謙) ("Mr. Chan"), aged 50, is the Chief Financial Officer of the Company, has over 25 years of public and commercial accounting and finance experience. As an experienced accounting professional, Mr. Chan is specialized in manufacturing industries including automotive parts, electronics, and hi-tech for a number of years. Mr. Chan has held senior financial positions in China and Canada at various multi-national corporations, such as Flextronics and Solectron. Mr. Chan graduated with Bachelor of Commerce degree from University of Toronto in 1979. Mr. Chan holds three professional designations, namely the Certified Management Accountant (CMA) in Canada, the Certified Public Accountant (CPA) in USA, and the Associate of the Chartered Institute of Management Accountants (ACMA) in UK. Mr. Chan joined AAC in April 2008.

Mr. Zhu Bingke (朱秉科) ("Mr. Zhu"), aged 45, is the Vice President of Acoustic Research and Development of the Company. Mr. Zhu assists our Chief Executive Officer and Chief Operating Officer in the overall coordination of projects, operation and management of our Group. He is also a general manager of Changzhou Weililai Electronic Acoustic Device Co., Ltd.. Prior to joining our Group, he was a deputy general manager at Shenzhen Yuanyu Industrial Development Co., Ltd. from 1992 to 1994. Mr. Zhu obtained a Diploma in Electrical Engineering from the Institute of Changzhou Industry Technology (常州工業技術學院) in the PRC in 1984. Mr. Zhu joined the Group in September 1994.

Mr. Jianlin Di (狄建林) ("Mr. Di"), aged 37, is the Vice President of advantage manufacturing technology and supply chain of the Company. Mr. Di is in charge of our manufacture engineering operation. Mr. Di has over 15 years' experience in tooling and manufacture engineering. He was the General Manager of Changzhou Kaitai Machinery and Electronics Co., Ltd. from August 1998 to September 2001. Since September 2001, Mr. Di has been the General Manager of Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.. Mr. Di studied tooling design and manufacturing at Jiangsu Changzhou Institute of Radio Industry (常州無線電工業學院) in the PRC.

Mr. Edward Y. Liu (廖勇濤) ("Mr. Liu"), aged 46, is the Vice President of Acoustic Operation of the Company. Mr. Liu is experienced in the electronics sales and marketing industry. Mr. Liu has held senior sales and marketing positions at various electronics companies in the PRC and the USA, such as Solectron Corporation and Flextronics International. Mr. Liu obtained higher diploma in Electronics Engineering from the Hong Kong Polytechnic University in 1985. Mr. Liu joined the Group in May 2005.

Mr. Sherman Chi-Shun Yip (葉志順) ("Mr. Yip"), aged 54, is the Vice President of Sales of the Company. Mr. Yip has extensive sales and marketing experience within the electronics industry. Mr. Yip has held senior sales and marketing positions at various electronics companies in the IT, Networking, Telecomm, Consumer & Business Electronics industries, such as Philips, Texas Instruments & Motorola Inc. Mr. Yip obtained a Bachelor of Math & Science (B.A.) and a Computer Science (B.C.Sc.) degree from the University of Windsor, Canada in 1981 & 1983. Mr. Yip joined the Company in December 2002.

Mr. Wang Jian (王劍) ("Mr. Wang"), aged 38, is Vice President of Quality of the Company. Mr. Wang has extensive quality management experience in electronics industry. Mr. Wang obtained bachelor degree in Precise Measurement Engineering from TianJin University in 1994. Mr. Wang joined Motorola (China) Electronics Ltd. in 1996 & held senior quality management and supplier development position for years. Mr. Wang joined the Company in 2007.

Mr. Erik Rudolphi ("Mr. Rudolphi"), aged 48, is Vice President of Sales and Account Management Europe Region. He has extensive experience from the audio industry. He has previously worked in different management positions in technical consultant companies with focus on acoustic technology where he has been in charge of the major mobile phone accounts, such as Sony Ericsson and Nokia. Mr. Rudolphi obtained a Master of Science degree in Engineering Physics from Uppsala University, Sweden in 1988. He joined the Company in January 2005.

Mr. Jeff King ("Mr. King"), age 49, is Vice President of Account Management & Marketing Promotion, Pan American Region. Mr. King has extensive experience in the Communications and Electronics Industry. During 20 years of service with Motorola, he had many accomplishments including Designing and Developing more than 15 Successful New Products, Creating and Leading the Corporate Wide Material Cost Reduction Programs (1B+ USD), Establishing and Managing the Global Sourcing Engineering Team, Creating a Global Corporate Wide Materials Management Software System, and achieving 28 Issued Patents. His areas of Overall Career Focus include Mechanics, Electronics, Shock, Vibration, Optics, Acoustics, Software and also Sales and Marketing. He achieved a Degree in Mechanical Engineering in 1982 from North Carolina State University and has been with the Company since 2006.

Dr. Chulho Kim (金哲鎬) ("Dr. Kim"), aged 48, is the Vice President of Non-acoustic Devices Research and Development of the Company. Dr. KIM is experienced in the development of electronic device and related mass production technologies, and also did Research and Development management for over 10 years in Samsung Korea. Dr. Kim also have successfully developed many key devices and related mass production technologies for mobile terminal, Dr. Kim obtained a Doctor's degree of material science at Seoul National University in 1993, and finished post doctor course in Korean Institute of Science and Technologies (KIST). He joined the Company in December 2007.

Mr. Poon Jeh Yuen (潘哲源), aged 45, is the Vice President of Marketing of AAC Acoustic Technologies. Mr. Poona has over 18 years of work experience in field of quality assurance, procurement and marketing of electronic semiconductor, including some international banking experience. Mr. Poon has held Regional Senior Marketing positions across several products and markets at Infineon Technology in both Singapore and Taiwan. Mr. Poon obtained his Bachelor of Science degree in Electronics & Electrical Engineering from the University of Missouri — Rolla in 1990. Mr. JY Poon joined the Group in June 2008.

Ms. Zhuang Renyan (莊任豔) ("Ms. Zhuang"), aged 39, is the Finance Director of the Company and worked as the Secretary to the Board. She is alsoin charge of investor relations and corporate secretarial matters. Ms. Zhuang has over 14 years' experience in finance. Prior to joining our Group as Chief Financial Controller in 2001, she was a senior manager at the Shenzhen Pan — China Schinda CPA Firm from January 1995 to August 2001. From June 1997 to May 1998, she underwent an exchange programme at Coopers & Lybrand in Hong Kong. Ms. Zhuang holds a Master's degree in Economics from Shanghai Maritime University (上海海事大學). Ms. Zhuang also obtained a CICPA Securities and Futures qualification in China (註冊會計師證券相關業務資格) and is a member of the China Institute of Certified Public Accountants (中國註冊會計師協會會員). Ms. Zhuang joined the Group in August 2001.

Mr. Cheung Yuk Chuen (張玉存) ("Mr. Cheung"), aged 35, has been appointed as qualified accountant and company secretary of the Company from 10th May, 2007. Mr. Cheung is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 10 years of experience in accounting, auditing and tax consultancy.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2008.

Principal Activities

The Company acts as an investment holding company, which the principal activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

Results and Dividend

The results of the Group for the year end 31st December, 2008 are set out in the consolidated income statement on page 34.

The directors propose a final dividend of HK10.9 cents per ordinary share for the year ended 31st December, 2008.

Property, Plant and Equipment

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

Share Capital

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 24 to the consolidated financial statements. The Directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Distributable Reserves

The Company's reserves available for distribution represent the aggregate of the share premium accounts and the contributed surplus less deficit which amounted to RMB1,055,377,000 as at 31st December, 2008 (2007: RMB1,200,321,000). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

Directors and Service Contracts

The Directors during the year and up to the date of this report were:

Executive Director:

Mr. Benjamin Zhengmin Pan *(Chief Executive Officer)*

Non-executive Directors:

Ms. Ingrid Chunyuan Wu
Mr. Pei Kang
Dr. Thomas Ng Kalon (resigned on 2nd January, 2009)

Independent Non-executive Directors:

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Mok Joe Kuen Richard and Ms. Ingrid Chunyuan Wu ("Ms. Wu") will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Benjamin Zhengmin Pan ("Mr. Pan") has entered into a service agreement with the Company for a term of three years from 15th July, 2008, which can be terminated by either party giving no less than 60 days' prior notice in writing or 60 days' payment in lieu of notice to the other party.

Each of Ms. Wu, Dr. Thomas Ng Kalon, Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Mr. Mok Joe Kuen Richard has entered into a letter of appointment with the Company for a term of two years from 16th April, 2007, which can be terminated by either party giving no less than one month's prior notice in writing or such shorter period as both parties may agree.

Mr. Pei Kang has entered into a letter of appointment with the Company for a term of two years from 15th February, 2009, which can be terminated by either party giving no less than one month's prior notice in writing or such shorter period as both parties may agree.

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

The Company confirms it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and it still considers that the independent non-executive Directors are independent.

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 08 to 17.

Directors' and Chief Executives' Interest in Shares and Underlying Shares

As at 31st December, 2008, 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 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	Joint interests	Corporate interests	Family interests	Other interests	Total number of shares	Percentage of the Company's issued share capital
Mr. Pan[(1)]	69,512,565	—	51,439,440	320,820,525	137,114,002	578,886,532	47.14%
Ms. Wu[(2)]	320,820,525	—	—	120,952,005	137,114,002	578,886,532	47.14%
Mr. Koh Boon Hwee	1,307,562	—	—	—	—	1,307,562	0.11%
Mr. Pei Kang	—	12,000	—	—	—	12,000	0.001%

Notes:

(1) Mr. Pan beneficially owns 69,512,565 shares. Mr. Pan is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company owned by Mr. Pan;

(ii) 320,820,525 shares which are beneficially owned by Ms. Wu as Mr. Pan is her spouse;

(iii) 132,375,158 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

(iv) 4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(2) Ms. Wu beneficially owns 320,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company owned by Mr. Pan, therefore 51,439,440 shares are deemed to be owned by Ms. Wu as she is Mr. Pan's wife;

(ii) 69,512,565 shares which are beneficially owned by Mr. Pan as she is his spouse;

(iii) 132,375,158 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

(iv) 4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt 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 31st December, 2008, none of the Directors, chief executives nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

Share Option Scheme

Details of the Company's share option scheme adopted on 15th July, 2005 are set out in note 25 to the consolidated financial statements. The Company has not granted any option under the share option scheme since its adoption.

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Contracts of Significance and Connected Transactions

On 25th September, 2001, the Group entered into a lease agreement with Ms. Wu and Mr. Pan under which Ms. Wu and Mr. Pan jointly agreed to lease out a property located in the United States of America as part of the place of business to a wholly-owned subsidiary of the Company. On 14th April, 2005, the term of the lease agreement was extended to 31st December, 2008. The parties to the lease agreements also agreed to adjust the rent payable each year by no more than 5% (either upwards or downwards) from the preceding year to reflect the then prevailing market conditions. There has been no adjustment in the rent payable in the year of 2008. Total rental expense incurred during the year, in respect of the lease agreement amounted to RMB573,000.

Discloseable and Connected Transaction on Acquisition of Assets

AAC Acoustic Technologies (Shenzhen) Co., Ltd ("AAC Shenzhen"), a wholly-owned subsidiary of the Company, has entered into an agreement with 深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd ("Shenzhen Yuanyu")), Shenzhen He Min Electronics Co, Ltd ("Shenzhen He Min"), Mr. Zhonglai Pan, Mr. Jiazheng Sha and Mr. Desheng Li (collectively, the "Vendors"), in relation to the sale and purchase of the entire issued share capital of Shenzhen Meiou for a consideration of RMB120,000,000 on 7th November, 2007. Following the completion of the Acquisition, Shenzhen Meiou will become a wholly-owned subsidiary of AAC (Shenzhen).

Shenzhen Meiou owned a property in Shenzhen and certain plants and land in Jiangsu. Shenzhen Meiou has been free-lending the property and equipment in Shenzhen and plants in Jiangsu to the Company. After considering the current rental market and the cost for acquiring Shenzhen Meiou, the Board considers that the Acquisition will benefit the Group as it is more economical to acquire Shenzhen Meiou than renting properties from Shenzhen Meiou in the long term.

As Shenzhen Yuanyu (shareholder of Shenzhen Meiou, which is wholly-owned by Mr. Boming Wu, who is the father of Ms. Wu and the father-in-law of Mr. Pan, Shenzhen He Min (shareholder of Shenzhen Meiou, which is 9.97% owned by Mr. Zhonglai Pan, who is the father of Mr. Pan and father-in-law of Ms. Wu) and Mr. Zhonglai Pan (shareholder of Shenzhen Meiou, who is the father of Mr. Pan and the father-in-law of Ms. Wu), being the vendors of this acquisition, are the connected persons of the Company, the entering into of the agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

An extraordinary general meeting of the Company was held on 4th January, 2008, at which an ordinary resolution was passed to approve the acquisition of Shenzhen Meiou.

Details of the above acquisition are set out in the Company's announcement dated 8th November, 2007 and 4th January, 2008 and the Company's circular dated 20th December, 2007.

Continuing Connected Transactions

During the year, the Group has entered into following agreements with the associate(s) of connected person(s) of the Company, which constitute continuing connected transactions for the Company under the Listing Rules:

1. Five purchase agreements entered into between the Group (AAC Acoustic Technologies (Changzhou) Co., Ltd. ("AAC Changzhou"), American Audio Components (Changzhou) Co., Ltd. ("Audio Changzhou"), AAC Shenzhen, AAC Technologies (Shuyang) Co., Ltd. ("AAC Shuyang") and AAC Microtech (Changzhou) Co., Ltd. ("Microtech Changzhou")) and Wujin Hutang Hejia Hongguang Stamping Factory, a company wholly owned by father of Ms. Wu, on 1st January, 2008 (the "HGCJ Agreements"). The term of the HGCJ Agreement is for a term of three years commencing from 1st January, 2008 and expiring on 31st December, 2010. The Board expects the annual purchase amount under the HGCJ Agreements will not exceed RMB9.0 million, RMB9.5 million and RMB10.0 million for the three years ending 31st December, 2010.

2. Three purchase agreements entered into between the Group (Audio Changzhou, AAC Acoustic Technologies (Shanghai) Co., Ltd. ("AAC Shanghai") and AAC Shuyang) and Suzhou Xinkai Electronics Co., Ltd., a company indirectly owned as to 73% by father and mother of Mr. Pan, on 1st January, 2008 (the "Suzhou Xinkai Agreements"). The term of the Suzhou Xinkai Agreements is for a term of three years commencing from 1st January, 2008 and expiring on 31st December, 2010. The Board expects the annual purchase amount under the Suzhou Xinkai Agreements will not exceed RMB3.0 million, RMB3.2 million and RMB3.4 million for the three years ending 31st December, 2010.

3. Three purchase agreements entered into between the Group (AAC Changzhou, Audio Changzhou and AAC Shuyang) and 常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd), a company indirectly wholly owned by father of Mr. Pan, on 1st January, 2008 (the "Changzhou Model Agreements"). The term of the Changzhou Model Agreements is for a term of three years commencing from 1st January, 2008 and expiring on 31st December, 2010. The Board expects the annual purchase amount under the Changzhou Model Agreements will not exceed RMB28.0 million, RMB29.0 million and RMB30.0 million for the three years ending 31st December, 2010.

4. Three agreements entered into between the Group (AAC Shenzhen, Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd. and Shenzhen Meiou) and Shenzhen Yuanyu, a company directly wholly owned by father of Ms. Wu, for the leasing of properties by the Group in January 2008 (the "Shenzhen Yuanyu Agreements"). The term of the Shenzhen Yuanyu Agreements is for a term of three years commencing from 1st January, 2008 and expiring on 31st December, 2010. The Board expects the annual leasing rent payable under the Shenzhen Yuanyu Agreements will not exceed RMB4.8 million for each of the three years ending 31st December, 2010.

5. Five agreements entered into between the Group (Changzhou Kaitai Machinery and Electronics Co., Ltd., Audio Changzhou, AAC Changzhou, Microtech Changzhou and AAC Shanghai) and Changzhou Laifangyuan Electronics Co., Ltd., a company beneficially owned as to 50% by father of Mr. Pan and 50% by Mother of Mr. Pan, for the leasing of properties by the Group in October 2007 (the "Changzhou LFY Agreements") The terms of the Changzhou LFY Agreements are vary with each leasing agreement which were between the period from 1st January, 2007 to 30th September, 2010. The Board expects the annual leasing rent payable under the Changzhou LFY Agreements will not exceed RMB2.3 million, RMB1.9 million and RMB1.1 million for the three years ending 31st December, 2010.

The Directors believe that the entering into of each of Suzhou Xinkai Agreements, HGCJ Agreements and Changzhou Model Agreements facilitates the operation of the Group as the materials purchases and/or to be purchased by the Group from such parties are essential to the production of the Group's products. In terms of the Shenzhen Yuanyu Agreements and Changzhou LFY Agreements, the Directors believe that the entering into of such agreements would allow the Group to continue its production activities at such locations which are located in close proximity to other facilities of the Group. As such, the Directors (including the independent non-executive Directors) consider that the entering into of the aforementioned agreements is beneficial to the overall business and operation of the Group. Details of the above are set out in the Company's announcement dated 14th May, 2008.

In December 2008, the Company announced that owing to the expansion of the Group's business, the following actions had been taken and details of which are set out in the Company's announcement dated 23rd December, 2008.

(i) On 16th December, 2008, owing to the need for maintaining the continuous business operation of the Group for its production, storage and office purposes, members of the Group (AAC Shenzhen) and father of Ms. Wu entered into the 2009 Wu's Father Agreement for the lease of a list of properties for a period of two years commencing from 1st January, 2009, and expiring on 31st December, 2010, at an annual rent of approximately RMB2.5 million for each of the two years.

(ii) On 16th December, 2008, owing to the expansion of the Group and the need for additional space for production activities, members of the Group and Changzhou LFY renewed one of the leasing agreements under the Changzhou LFY Agreements which will be expiring on 31st December, 2008 and also entered into seven leasing agreements in addition to the Changzhou LFY Agreements with Changzhou LFY (collectively, the Revised Changzhou LFY Agreements). The terms of the Revised Changzhou LFY Agreements are vary with each leasing agreement which were between the period from 1st January, 2007 to 31st December, 2010. The Board expects the annual leasing rent payable under the Revised Changzhou LFY Agreements will not exceed RMB3.3 million and RMB2.5 million for the two years ending 31st December, 2010.

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

The Directors of the Company engaged the auditors of the Company to perform certain agreed upon procedures in respect of continuing connected transactions of the Group. The procedures were performed solely to assist the Directors of the Company to evaluate in accordance with Rule 14A.38 of the Listing Rules, whether the continuing connected transactions entered into by the Group for the year ended 31st December, 2008:

(a) have received the approval of the Directors of the Company;

(b) have been entered into in accordance with the terms of the relevant agreement governing such transactions;

(c) have not exceeded the relevant cap amount for the financial year ended 31st December, 2008 disclosed in previous announcements; and

(d) have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

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

Substantial Shareholders

As at 31st December, 2008, the register of interests and short positions kept by the Company under section 336 of the SFO other than the directors and chief executives, 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
J.P. Morgan Chase & Co.(1)	220,842,942 (L)	17.98%
	83,728,000 (P)	6.82%
Credit Suisse Group(2)	93,600,000 (L)	7.50%
	93,600,000 (S)	7.50%
Prudential Plc(3)	85,974,000 (L)	7.00%
Schroder Investment Management (Hong Kong) Limited	85,288,000 (L)	6.94%
Emerging Markets Management, LLC	85,156,000 (L)	6.90%
Capital Research and Management Company(4)	61,568,000 (L)	5.01%

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

(1) J.P. Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 220,842,942 shares of the Company.

(i) 83,728,000 shares are directly held by JP Morgan Chase Bank, N.A., J.P. Morgan Chase & Co. is deemed to be interested in these 83,728,000 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.;

(ii) *137,114,002 shares are directly held by J.P. Morgan International Bank Limited, by virtue of JP Morgan Overseas Capital Corporation's 100% interest in J.P. Morgan International Bank Limited, J.P. Morgan International Finance Limited's 100% interest in JP Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in JP Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, J.P. Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., each of JP Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JP Morgan Chase Bank, N.A., and J.P. Morgan Chase & Co. are deemed to be interested in these 137,114,002 shares.*

(iii) *940 shares are directly held by J.P. Morgan Whitefriars Inc., by virtue of J.P. Morgan overseas Capital Corporation's 100% interest in J.P. Morgan Whitefriars Inc., J.P. Morgan International Finance Limited's 100% interest in JP Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in JP Morgan International Finance Limited., J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, J.P. Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., each of JP Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited., Bank One International Holdings Corporation, J.P. Morgan International Inc., JP Morgan Chase Bank, N.A., and J.P. Morgan Chase & Co. are deemed to be interested in these 940 shares;*

Comprising 83,728,000 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.

(2) *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.*

(3) *By virtue of Prudential Plc's 100% interest in Prudential Holdings Ltd., Prudential Holdings Ltd.'s 100% interest in Prudential Corporation Holdings Ltd., Prudential Corporation Holdings Ltd.'s 100% interest in Prudential Asset Management (Hong Kong) Ltd., each of Prudential Plc, Prudential Holdings Ltd., Prudential Corporation Holdings Ltd. and Prudential Asset Management (Hong Kong) Ltd. is deemed to be interested in 85,974,000 shares in the Company directly held by Prudential Asset Management (Hong Kong) Ltd.*

(4) *By virtue of Capital Research and Management Company's 100% interest in The Capital Group Companies, Inc., each of Capital Research and Management Company and The Capital Group Companies, Inc. is deemed to be interested in 61,568,000 shares in the Company directly held by The Capital Group Companies, Inc.*

Save as the interests and short positions disclosed above, as at 31st December, 2008, 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 where 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.

Emolument Policy

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 25 to the consolidated financial statements.

Purchase, Sale and Redemption of Listed Securities

During the year, the Company repurchased its own 10 million shares through the Stock Exchange and the aggregate consideration paid was approximately RMB65,571,000. The above shares were cancelled upon repurchase.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year ended 31st December, 2008.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws in the Cayman Islands being the jurisdiction in which the Company was incorporated.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 73.3% of the Group's total sales while the sales attributable to the Group's largest customer represented approximately 26.1% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

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

Directors' Interests in Competing Business

During the year, none of the Directors or their respective associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors were appointed as directors to represent the interests of the Company and/or the Group.

Sufficiency of Public Float

The Company has maintained a sufficient public float during the year ended 31st December, 2008.

Auditor

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Koh Boon Hwee
Chairman

7th April, 2009

Corporate Governance Practices

The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of shareholders of the Company ("Shareholders").

The Board has reviewed its corporate governance practices and ensured that they are in compliance with the code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in the year ended 31st December, 2008.

Directors' Securities Transactions

The Company has adopted codes of conduct regarding securities transactions on terms not less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions for 2008.

Directors' and Officers' Liabilities Insurance

The Company has arranged Directors' and officers' liabilities insurance for the Directors and the senior management of the Company. The insurance covers them against costs, charges, expenses and liabilities incurred arising out of the corporate activities.

Board of Directors

The Board comprises one executive Director, three non-executive Directors (which one of them resigned with effect from 2nd January, 2009) and three independent non-executive Directors. The Board members and the terms of appointment of the Directors are set out in the "Director and service contracts" section of "Directors' Report" on pages 18 to 19 of this report. In accordance with the Company's Articles of Association, all Directors (including executive Directors, non-executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years, which complies with the code provision A.4.2 of the CG Code.

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 08 to 17 of this annual report.

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

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

Independent non-executive directors

The Company has received, from each of the independent non-executive Director, an annual written confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Board meetings are held at least 4 times a year. Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. During the year ended 31st December, 2008, the Board convened a total of 5 meetings and the attendances of the Directors at these Board meetings are as follows:

Directors	**Number of attendance**
Executive director	
Mr. Benjamin Zhengmin Pan	5/5
Non-executive directors	
Ms. Ingrid Chunyuan Wu	3/5
Mr. Pei Kang	5/5
Dr. Thomas Kalon Ng (resigned on 2nd January, 2009)	5/5
Independent non-executive directors	
Mr. Koh Boon Hwee	5/5
Dr. Dick Mei Chang	5/5
Mr. Mok Joe Kuen Richard	5/5

Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors received details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

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

Chairman and Chief Executive Officer

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

Audit Committee

The audit committee was established in April 2005 and is chaired by Mr. Mok Joe Kuen Richard, an independent non-executive Director, with two other members, Mr. Koh Boon Hwee, an independent non-executive Director and Ms. Ingrid Chunyuan Wu, a non-executive Director.

The primary responsibilities of the audit committee are to review the Company's financial statements, supervise the financial reporting process and evaluate the effectiveness of the internal control system of the Group. The audit committee reviewed the quarterly financial results, interim report as well as the annual report of the Company in the year of 2008 which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

The audit committee meeting held at least 4 meetings a year and the audit committee meets as are when required. During the financial year ended 31st December, 2008, the audit committee convened 4 meetings and details of the attendance of its meetings are as follows:

Members	Attendance
Mr. Mok Joe Kuen Richard	4/4
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	2/4

Nomination Committee

The nomination committee was established in April 2005 and is chaired by Dr. Dick Mei Chang, an independent non-executive Director, with two other members, Mr. Mok Joe Kuen Richard, an independent non-executive Director and Mr. Pei Kang, a non-executive Director.

The nomination committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the structure, size and composition of the Board, the appointment and re-appointment of Directors, the assessment on independence of independent non-executive Director, and ensuring the proper and transparent procedures for the appointment and re-appointment of Directors.

Current practice to appoint new Directors is that the nomination committee will identify and nominate suitable candidates by considering their knowledge, skill and experience, and all valid nomination of candidates, accompanied with details of their biographical backgrounds, would be presented to the Board for consideration as soon as practicable. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Company's business. It is believed that members of the nomination committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

The nomination committee met once in 2008 with full attendance of its members to review the structure, size and composition of the Board, and assess the independence of independent non-executive Directors.

Remuneration Committee

The remuneration committee was established in April 2005 and is chaired by Mr. Koh Boon Hwee, an independent non-executive Director, with two other members, Dr. Dick Mei Chang, an independent non-executive Director, Dr. Thomas Kalon Ng, a non-executive Director (whom resigned on 2nd January, 2009), and Mr. Pei Kang (whom was appointed on 7th April, 2009).

The responsibilities of the remuneration committee include advising the Board in relation to the remuneration policy and structure of the Directors and senior management,, as well as representing the Board in confirming the individual remuneration packages and employment terms of executive Directors and approving their related employment contracts.

The remuneration committee met once in 2008 with full attendance of its members to review the remuneration package of the Board and the senior management.

Emolument policy

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

The emoluments of the Directors are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees. Details of the share option scheme are set out in note 25 to the financial statements.

Auditors' Remuneration

During the year ended 31st December, 2008, the services provided to the Company by its external auditor, Messrs. Deloitte Touche Tohmatsu, and the respective fee paid is set out below:

Type of Services	**2008 HK$'000**
Audit services	**2,280**
Non-audit services	
Interim review	**700**
Others	**200**
Total:	**3,180**

Internal Controls and Risk Management

The Board is responsible for overseeing the Group's system of internal controls and ensures sound and effective internal controls to safeguard the shareholder's investment and the assets of the Group are properly maintained. Independent professional consultant was engaged in 2006 to conduct the internal control review on process the Company's principal activities and no significant weaknesses was noted. During the year, the Board had reviewed and ensured that the internal control process had been properly carried out in making the investment decision and adequacy of resources, qualifications and experience of staff and the Group's accounting and financial reporting were maintained properly. The Board considers that the Group's internal control system covers all material aspects, including financial, operational, risk management functions and which compliance with all relevant regulations.

Directors' and Auditors' Responsibility for the Financial Statements

Reporting responsibilities of the Directors and the auditor are set out on page 30 of this annual report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the financial statements for the year ended 31st December, 2008 in accordance with International Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance.

The Company has established its own website (www.aacacoustic.com) as a means to communicate with the shareholders.

Communications with Shareholders

The Board aims to ensure that its Shareholders are kept well informed of key business imperatives by way of annual general meeting, extraordinary general meeting(s), Company's annual report, interim report, announcements and circulars.

In each general meeting held during the year, the Board had ensured that:

- adequate notice period and all the relevant materials were given and sent to the Shareholders before the general meeting;

- the procedures for demanding a poll are explained to the Shareholders at the commencement of the general meeting; and

- Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Share Registrar, acted as scrutineer in each occasion for all vote cast at the general meeting.

The chairman of the Board, and the chairman or representative of all committees were available to answer questions at the annual general meeting held on 14th May, 2008.

Deloitte.
德勤

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

We have audited the consolidated financial statements of AAC Acoustic Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 77 which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for The Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7th April, 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Revenue		**2,256,022**	1,952,212
Cost of goods sold		**(1,315,537)**	(1,028,751)
Gross profit		**940,485**	923,461
Other income		**65,495**	26,089
Fair value (loss) gain on foreign exchange linked notes		**(4,709)**	6,344
Distribution and selling expenses		**(103,017)**	(117,314)
Administrative expenses		**(120,254)**	(117,916)
Research and development costs		**(123,418)**	(85,662)
Finance costs	7	**(10,026)**	(6,585)
Other expenses		**(28,315)**	(30,439)
Profit before taxation	8	**616,241**	597,978
Taxation	10	**(25,638)**	(49,936)
Profit for the year		**590,603**	548,042
Attributable to:			
Equity holders of the Company		**590,434**	551,133
Minority interests		**169**	(3,091)
		590,603	548,042
Proposed final dividend of HK10.9 cents (2007: Nil) per ordinary share		**117,830**	—
Earnings per share — Basic	11	**RMB48.01 cents**	RMB44.37 cents

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,289,356**	833,811
Goodwill	13	**5,405**	3,655
Prepaid lease payments	14	**70,024**	36,026
Foreign exchange linked notes	15	**—**	85,632
Deposits made on acquisition of property, plant and equipment		**56,049**	123,118
Intangible assets	16	**29,126**	31,732
		1,449,960	1,113,974
Current assets			
Inventories	17	**295,762**	271,029
Trade and other receivables	18	**563,130**	762,226
Amount due from a minority shareholder of a subsidiary	19	**10,537**	11,503
Amounts due from related companies	20	**19,152**	—
Foreign exchange linked notes	15	**80,923**	—
Taxation recoverable		**2,118**	2,200
Pledged bank deposits	21	**16,624**	26,278
Bank balances and cash	21	**1,266,011**	1,024,538
		2,254,257	2,097,774
Current liabilities			
Trade and other payables	22	**365,766**	414,921
Amounts due to related companies	20	**9,777**	2,195
Taxation payable		**13,176**	24,327
Short-term bank loans	23	**200,295**	182,330
		589,014	623,773
Net current assets		**1,665,243**	1,474,001
Net assets		**3,115,203**	2,587,975

Consolidated Balance Sheet (continued)

At 31st December, 2008

	NOTES	**2008** **RMB'000**	2007 RMB'000
Capital and reserves			
Share capital	24	**99,718**	100,530
Reserves		**3,008,050**	2,476,806
Equity attributable to equity holders of the Company		**3,107,768**	2,577,336
Minority interests		**7,435**	10,639
Total equity		**3,115,203**	2,587,975

The consolidated financial statements on pages 34 to 77 were approved and authorised for issue by the Board of Directors on 7th April, 2009 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital 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, 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 financial statements of foreign operations, representing net income recognised in equity	—	—	—	—	(10,577)	—	—	—	(10,577)	(482)	(11,059)
Profit for the year	—	—	—	—	—	—	—	551,133	551,133	(3,091)	548,042
Total recognised income and expense for the year	—	—	—	—	(10,577)	—	—	551,133	540,556	(3,573)	536,983
Shares repurchased and cancelled	(812)	(73,543)	—	—	—	—	—	—	(74,355)	—	(74,355)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	27	27
Capital contribution from a minority shareholder of a subsidiary	—		—	—	—	—	—	—	—	272	272
Transfers	—	—	—	—	—	—	54,854	(54,854)	—	—	—
At 31st December, 2007	100,530	811,716	(7,469)	—	(8,296)	87,245	104,212	1,489,398	2,577,336	10,639	2,587,975
Exchange differences arising from translation of financial statements of foreign operations, representing net income recognised in equity	—	—	—	—	(17,822)	—	—	—	(17,822)	(1,597)	(19,419)
Profit for the year				—	—			590,434	590,434	169	590,603
Total recognised income and expense for the year	—	—	—	—	(17,822)			590,434	572,612	(1,428)	571,184
Shares repurchased and cancelled	(812)	(64,759)	—	—	—	—	—	—	(65,571)	—	(65,571)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(2,477)	(2,477)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	701	701
Deemed capital contribution from a shareholder arising from acquisition of a subsidiary (note 26 (a))	—	—	—	23,391	—	—	—	—	23,391	—	23,391
Transfers	—	—	—	—	—	—	46,828	(46,828)	—	—	—
At 31st December, 2008	99,718	746,957	(7,469)	23,391	(26,118)	87,245	151,040	2,033,004	3,107,768	7,435	3,115,203

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

Consolidated Statement of Changes in Equity (continued)

For the year ended 31st December, 2008

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the paid-in capital of subsidiaries acquired pursuant to the group reorganisation in preparation for the listing of the Company's shares in 2004 and 2005.

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

The capital reserve represents the discount on acquisition of a subsidiary deemed as a capital contribution from a shareholder.

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**616,241**	597,978
Adjustments for:			
Interest income		**(29,743)**	(19,601)
Interest expense		**10,026**	6,585
Depreciation		**126,126**	77,144
Amortisation of development expenditure		**6,647**	4,643
Fair value loss (gain) on foreign exchange linked notes		**4,709**	(6,344)
Operating lease rentals in respect of prepaid lease payments		**1,295**	768
Loss on disposal of property, plant and equipment		**4,840**	937
Discount on acquisition of additional interests in a subsidiary		**(2,477)**	—
Allowance for bad and doubtful debts		**6,068**	835
Reversal of allowance for bad and doubtful debts		**(1,865)**	—
Release of prepaid licence rights		**—**	3,370
Operating cash flows before movements in working capital		**741,867**	666,315
Increase in inventories		**(25,095)**	(81,694)
Decrease (increase) in trade and other receivables		**184,308**	(206,255)
(Decrease) increase in trade and other payables		**(66,092)**	43,512
Cash from operations		**834,988**	421,878
Taxation paid		**(36,707)**	(47,641)
Net cash from operating activities		**798,281**	374,237
Investing activities			
Proceeds from disposal of property, plant and equipment		**61,184**	457
Interest received		**29,743**	19,601
Decrease in pledged bank deposits		**9,654**	674
Repayment from related companies		**7,285**	—
Repayment from a minority shareholder of a subsidiary		**966**	4,173
Purchase of property, plant and equipment		**(430,125)**	(235,296)
Acquisition of a subsidiary (net of cash and cash equivalent acquired)	26(a)	**(116,318)**	—
Deposits paid on acquisition of property, plant and equipment		**(56,049)**	(123,118)
Prepaid rentals on land use rights		**(12,521)**	(28,873)
Additions to intangible assets		**(4,041)**	(36,375)
Acquisition of a business (net of cash and cash equivalent acquired)	26(b)	**(946)**	(7,597)
Net cash used in investing activities		**(511,168)**	(406,354)

Consolidated Cash Flow Statement (continued)

For the year ended 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Financing activities			
Bank loans raised		**97,961**	182,330
Borrowings from (repayment to) related companies		**7,582**	(8,970)
Repayment of bank loans		**(68,225)**	(10,000)
Shares repurchased		**(65,571)**	(74,355)
Interest paid		**(10,086)**	(6,594)
Capital contribution from a minority shareholder of a subsidiary		**—**	272
Net cash (used in) from financing activities		**(38,339)**	82,683
Net increase in cash and cash equivalents		**248,774**	50,566
Cash and cash equivalents at 1st January		**1,024,538**	988,992
Effect of foreign exchange rate changes		**(7,301)**	(15,020)
Cash and cash equivalents at 31st December		**1,266,011**	1,024,538
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**1,266,011**	1,024,538

1. General

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 31.

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

2. Application of New and Revised International Financial Reporting Standards ("IFRSs")

In the current year, the Group has applied, for the first time, the following new amendments and interpretations ("new IFRSs"), which are effective for the Group's financial year beginning 1st January, 2008.

IAS 39 & IFRS 7 (Amendments)	Reclassification of financial assets
IFRIC 11	IFRS 2 — Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 14	IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. Application of New and Revised International Financial Reporting Standards ("IFRSs") (continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of financial statements[2]
IAS 23 (Revised)	Borrowing costs[2]
IAS 27 (Revised)	Consolidated and separate financial statements[3]
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
IAS 39 (Amendment)	Eligible hedged items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
IFRS 2 (Amendment)	Vesting conditions and cancellations[2]
IFRS 3 (Revised)	Business combinations[3]
IFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
IFRS 8	Operating segments[2]
IFRIC 9 & IAS 39 (Amendments)	Embedded derivatives[4]
IFRIC 13	Customer loyalty programmes[5]
IFRIC 15	Agreements for the construction of real estate[2]
IFRIC 16	Hedges of a net investment in a foreign operation[6]
IFRIC 17	Distributions of non-cash assets to owners[3]
IFRIC 18	Transfer of assets from customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1st July, 2009.
2 Effective for annual periods beginning on or after 1st January, 2009.
3 Effective for annual periods beginning on or after 1st July, 2009.
4 Effective for annual periods ending on or after 30th June, 2009.
5 Effective for annual periods beginning on or after 1st July, 2008.
6 Effective for annual periods beginning on or after 1st October, 2008.
7 Effective for transfers received on or after 1st July, 2009.

The adoption of IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on or after 1st January, 2010. IAS 27 (revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. Significant Accounting Policies (continued)

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Acquisition of additional interests in subsidiaries

Discount arising on acquisition of additional interests in subsidiaries represents the excess of the carrying value of the net assets attributable to the additional interests in the subsidiaries over the cost of acquisition.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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

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

Property, plant and equipment

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

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

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

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

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

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

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

Prepaid lease payments

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

Borrowing costs

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

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

Inventories

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

3. Significant Accounting Policies (continued)

Financial instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss (comprising foreign exchange linked notes) and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted is set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in National or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Shares repurchased and cancelled are charged against the share capital and share premium account by its nominal value and the premium paid on repurchase, respectively.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or any new asset obtained and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid including other liabilities assumed is recognised in profit or loss.

3. Significant Accounting Policies (continued)

Research and development expenditure

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

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

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3. Significant Accounting Policies (continued)

Government grants

Government grants are recognised as income when there is reasonable assurance that the grants will be received unconditionally.

Impairment (other than goodwill and financial assets)

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

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

Foreign currencies

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

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

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

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. Significant Accounting Policies (continued)

Operating leases (continued)

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

4. Financial Instruments

Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Designated as at fair value through profit or loss	**80,923**	85,632
Loans and receivables (including cash and cash equivalents)	**1,851,487**	1,799,774
Financial liabilities		
Amortised cost	**545,037**	556,652

Financial risk management objectives and policies

The Group's major financial instruments include foreign exchange linked notes, trade and other receivables, bank balances, trade and other payables, and short-term bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

Currency risk

Several subsidiaries of the Group have foreign currency sales and purchases and certain trade receivables, bank deposits, bank loans, inter-group loans and trade payables are denominated in foreign currencies other than the respective functional currencies of the relevant group entities and thus expose the Group to foreign currency risk. In addition, the Group has foreign exchange linked notes outstanding at year end. The Group currently does not have a foreign currency hedging policy. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise.

4. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date, excluding balances which are denominated in US$ in group companies with HK$ as its functional currency because HK$ is pegged to US$, are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**623,289**	657,124	**111,273**	467,625
Japanese Yen	**20,293**	55,013	**18,659**	5,117
EURO	**208,961**	178	**417**	—
Others	**564**	6,046	**1,168**	2,295

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen and Euro. Exposures on balances which are denominated in US$ in group companies with HK$ as its functional currency are not considered as HK$ is pegged to US$ and in which fluctuations during the year is insignificant. The following table details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis of the Group's foreign exchange linked notes are derived by adjusting the calculation of the redemption price of these notes for a 5% change in exchange rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative number below indicates a decrease in profit for the year where the RMB strengthen 5% against the relevant currency. For a 5% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the amounts below would be positive.

	Impact	
	2008	2007
	RMB'000	RMB'000
Profit for the year		
US$	**(20,872)**	(1,541)
EURO	**(3,524)**	(9)
Japanese Yen	**(82)**	(2,495)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

4. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 23) and bank balances and deposits (see note 21). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 21). The management considers the Group's exposure on the variable-rate bank loans and bank balances and deposits and fixed rate bank deposits to interest rate risk is not significant as they have a short maturity period.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated the fluctuation of the London Inter-bank Offered Rate arising from the Group's bank loans.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of variable-rate bank loans at the balance sheet date was the amount outstanding for the whole year. The sensitivity analysis have excluded certain bank balances which are not interest sensitive.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2008 would increase/decrease by RMB3,711,000 (2007: RMB1,601,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

Credit risk

As at 31st December, 2008 and 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

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

The credit risk on the Group's foreign exchange linked notes is concentrated to two banks however management considers the risk to be limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk on loan receivables as disclosed in note 18, are concentrated to one counterparty. Management considers, based on the strong financial background of the counterparty, there are no significant credit risk.

4. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit risk on amounts due from related companies are concentrated to two related companies. Management considers based on the strong financial background of the related companies there are no significant credit risk.

Credit risk is concentrated as 9.30% (2007: 15.46%) and 32.63% (2007: 40.72%) of the total trade receivables are due from the Group's largest customer and the five largest customers within the manufacture and sales of acoustic related products business segment. However, the management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Group's contractual maturity for its financial liabilities:

	On demand RMB'000	**Less than 1 year** RMB'000	**Total undiscounted cash flow** RMB'000	**Carrying amount** RMB'000
At 31st December, 2008				
Financial liabilities				
Non-interest bearing	5,443	339,299	344,742	344,742
Variable interest rate*	—	203,523	203,523	200,295
	5,443	542,822	548,265	545,037
At 31st December, 2007				
Financial liabilities				
Non-interest bearing	3,628	370,694	374,322	374,322
Variable interest rate*	—	186,862	186,862	182,330
	3,628	557,556	561,184	556,652

* *The weighted average interest rate used to project future cash flows was 3.37% (2007: 5.97%) per annum. For variable interest rate instruments, the interest rates used were the interest rates at the balance sheet date.*

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The carrying amounts of financial assets and liabilities carried at amortised cost approximate their respective fair values due to the relatively short-term nature of these financial instruments.

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will consider to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. Business and Geographical Segments

Revenue represents amounts received and receivable for goods sold by the Group to outside customers during the year, net of discounts and sales related taxes.

Business segments

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

Geographical segments

The following table provides an analysis of the Group's revenue by location of customers, irrespective of the origin of the goods and are the basis on which the Group reports its primary segment information:

	2008 **RMB'000**	2007 RMB'000
Revenue		
— America	**833,146**	938,547
— Greater China*	**404,037**	389,541
— Europe	**888,168**	547,504
— Asia (excluding Greater China)	**130,671**	76,620
	2,256,022	1,952,212

* *Majority of the revenue from Greater China were derived from PRC.*

6. Business and Geographical Segments (continued)

Geographical segments (continued)

	2008 **RMB'000**	2007 RMB'000
Results:		
Segment results		
— America	**174,538**	247,163
— Greater China	**26,174**	94,219
— Europe	**347,134**	219,005
— Asia (excluding Greater China)	**21,199**	15,964
	569,045	576,351
Other income	**35,752**	6,488
Interest income	**29,743**	19,601
Fair value (loss) gain on foreign exchange linked notes	**(4,709)**	6,344
Unallocated expenses	**(3,564)**	(4,221)
Finance costs	**(10,026)**	(6,585)
Profit before taxation	**616,241**	597,978
Taxation	**(25,638)**	(49,936)
Profit for the year	**590,603**	548,042

The goods sold to various geographical markets were principally produced from the same production facilities located in the PRC, therefore, analysis of assets and liabilities and capital addition by location of assets are not presented.

6. Business and Geographical Segments (continued)

Geographical segments (continued)

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

	2008 RMB'000	2007 RMB'000
Segment assets		
— America	**822,312**	835,308
— Greater China	**505,557**	641,874
— Europe	**857,401**	522,534
— Asia (excluding Greater China)	**153,271**	73,384
	2,338,541	2,073,100
Unallocated	**1,365,676**	1,138,648
	3,704,217	3,211,748
Segment liabilities		
— America	**178,538**	206,727
— Greater China	**54,513**	94,491
— Europe	**120,468**	101,145
— Asia (excluding Greater China)	**22,024**	14,753
	375,543	417,116
Unallocated	**213,471**	206,657
	589,014	623,773

6. Business and Geographical Segments (continued)

Other information

	2008 **RMB'000**	2007 RMB'000
Capital additions		
— America	**250,718**	154,957
— Greater China	**110,785**	78,136
— Europe	**255,456**	91,666
— Asia (excluding Greater China)	**37,558**	8,883
	654,517	333,642
Depreciation and amortisation		
— America	**57,845**	41,275
— Greater China	**22,113**	21,580
— Europe	**43,503**	16,458
— Asia (excluding Greater China)	**9,312**	2,474
	132,773	81,787
Allowance for bad and doubtful debts		
— America	**6,068**	—
— Greater China	**—**	835
	6,068	835
Loss on disposal of property, plant and equipment		
— Greater China	**4,840**	937
Fair value loss (gain) on foreign exchange linked notes		
— Unallocated	**4,709**	(6,344)

7. Finance Costs

	2008 **RMB'000**	2007 RMB'000
Interest on bank borrowings wholly repayable within five years	**10,086**	6,594
Less: Interest capitalised in construction in progress	**(60)**	(9)
	10,026	6,585

8. Profit Before Taxation

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 9)	**3,564**	2,277
Other staff's retirement benefits scheme contributions	**25,103**	26,150
Other staff costs	**522,097**	437,990
Total staff costs	**550,765**	466,417
Less: Staff costs included in research and development costs	**(51,140)**	(37,310)
	499,625	429,107
Depreciation	**126,126**	77,144
Less: Depreciation included in research and development costs	**(17,225)**	(10,048)
	108,901	67,096
Amortisation of development expenditure, included in cost of goods sold	**6,647**	4,643
Allowance for bad and doubtful debts	**6,068**	835
Auditor's remuneration	**2,028**	1,944
Cost of inventories recognised as expense	**1,315,537**	1,028,751
Loss on disposal of property, plant and equipment	**4,840**	937
Net exchange loss	**17,407**	28,667
Operating lease rentals in respect of		
— building premises	**18,880**	18,484
— prepaid lease payments	**1,295**	768
and after crediting:		
Discount on acquisition of additional interests in a subsidiary	**2,477**	—
Government subsidies*	**30,862**	1,932
Interest income	**29,743**	19,601
Reversal of allowance for bad and doubtful debts	**1,865**	—

* *The amount mainly represents the incentive subsidies granted by the PRC local authorities to the Group for engaging in high technology business and for reinvestment in its PRC subsidiaries. All the grants were approved and received during the year.*

9. Directors' and Employees' Emoluments

Directors' emoluments

	Benjamin Pan Zhengmin RMB'000	Ingrid Wu Chunyuan RMB'000	Pei Kang RMB'000	Thomas Ng Kalon RMB'000	Koh Boon Hwee RMB'000	Dick Mei Chang RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
31st December, 2008								
Fees	—	98	84	—	146	111	129	568
Salaries and other benefits	2,996	—	—	—	—	—	—	2,996
Total directors' emoluments	2,996	98	84	—	146	111	129	3,564
31st December, 2007								
Fees	—	107	92	—	160	122	141	622
Salaries and other benefits	1,655	—	—	—	—	—	—	1,655
Total directors' emoluments	1,655	107	92	—	160	122	141	2,277

Employees' emoluments

The five highest paid individuals included one (2007: nil) director, details of whose emoluments are set out above. The emoluments of the remaining four (2007: five) highest paid individuals are as follows:

	2008 RMB'000	2007 RMB'000
Employees		
— basic salaries and allowances	**3,743**	4,261
— bonus	**6,112**	14,901
— retirement benefits scheme contributions	**238**	50
	10,093	19,212

Note: The bonus is determined based on performance of the employees.

The emoluments were within the following bands:

	Number of employees	
	2008	2007
RMB1,500,001 to RMB2,000,000	**1**	—
RMB2,000,001 to RMB2,500,000	**2**	—
RMB2,500,001 to RMB3,000,000	**—**	3
RMB3,500,001 to RMB4,000,000	**1**	1
RMB7,500,001 to RMB8,000,000	**—**	1

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as compensation for loss of office. During the year, one director waived emoluments of RMB84,000 (2007: RMB92,000).

10. Taxation

	2008 **RMB'000**	2007 RMB'000
The charge comprises:		
PRC income tax	**25,183**	51,129
Other taxation	**914**	88
Overprovision of taxation in prior years	**(459)**	(1,281)
	25,638	49,936

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC income tax for 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 ("Tax Holiday"). The Tax Holiday will expire gradually up to 2011.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain PRC subsidiaries from 1st January, 2008. PRC subsidiaries which are entitled to the Tax Holiday, as mentioned above, will continue to enjoy the preferential tax treatment until expiration, on effect of the New Law.

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

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

	2008 **RMB'000**	2007 RMB'000
Profit before taxation	**616,241**	597,978
Tax at the applicable income tax rate (note)	**154,060**	143,515
Tax effect of income not taxable for tax purposes	**(10,215)**	(3,256)
Tax effect of expenses not deductible for tax purposes	**18,179**	15,633
Tax effect of Tax Holiday	**(136,077)**	(95,528)
Tax effect of tax losses not recognised	**4,758**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(6,063)**	(9,267)
Overprovision in prior years	**(459)**	(1,281)
Others	**1,455**	120
Tax charge for the year	**25,638**	49,936

Note: *The PRC Enterprise Income Tax rate of 25% (2007: 24%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.*

No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is possible that such differences will not reverse in the foreseeable future.

11. Earnings Per Share

The calculation of the basic earnings per share for the year ended 31st December, 2008 is based on the profit for the year attributable to equity holders of the Company of RMB590,434,000 (2007: RMB551,133,000) and on the weighted average number of ordinary shares of 1,229,711,497 shares in issue during the year (2007: 1,241,992,668 shares).

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during both years.

12. Property, Plant and Equipment

	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1st January, 2007	57,203	120,598	2,891	12,166	465,902	89,219	747,979
Currency realignment	—	(308)	(18)	—	30	—	(296)
Additions	3,607	37,802	13,829	5,151	113,190	117,438	291,017
Acquisition of subsidiary	—	—	—	—	2,595	—	2,595
Disposals	(328)	(814)	—	(917)	(1,176)	—	(3,235)
Transfers	47,969	5,885	—	—	36,816	(90,670)	—
At 31st December, 2007	108,451	163,163	16,702	16,400	617,357	115,987	1,038,060
Currency realignment	(71)	(578)	(45)	(14)	(491)	—	(1,199)
Additions	14,098	47,121	8,205	1,932	217,222	264,725	553,303
Acquisition of a subsidiary/ business	22,482	3,539	—	122	23,909	45,371	95,423
Disposals	(39,319)	(2,114)	(4,343)	(2,453)	(5,580)	(22,585)	(76,394)
Transfers	47,559	4,166	32,241	—	74,499	(158,465)	—
At 31st December, 2008	153,200	215,297	52,760	15,987	926,916	245,033	1,609,193
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2007	6,084	37,690	1,346	4,209	79,808	—	129,137
Currency realignment	—	(165)	(15)	—	(11)	—	(191)
Provided for the year	3,473	21,901	1,641	2,108	48,021	—	77,144
Eliminated on disposals	(6)	(714)	—	(739)	(382)	—	(1,841)
At 31st December, 2007	9,551	58,712	2,972	5,578	127,436	—	204,249
Currency realignment	(1)	(67)	(2)	(1)	(97)	—	(168)
Provided for the year	8,245	30,104	8,813	2,843	76,121	—	126,126
Eliminated on disposals	(2,602)	(1,990)	(1,636)	(1,693)	(2,449)	—	(10,370)
At 31st December, 2008	15,193	86,759	10,147	6,727	201,011	—	319,837
CARRYING VALUES							
At 31st December, 2008	138,007	128,538	42,613	9,260	725,905	245,033	1,289,356
At 31st December, 2007	98,900	104,451	13,730	10,822	489,921	115,987	833,811

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

Bank interest of RMB60,000 (2007: RMB9,000) was capitalised under construction in progress.

13. Goodwill

	RMB'000
COST	
At 1st January, 2007	—
Arising on acquisition of a subsidiary	3,655
At 31st December, 2007	3,655
Arising on acquisition of a subsidiary	1,750
At 31st December, 2008	5,405

The goodwill acquired in a business combination was allocated to the cash generating unit ("CGU") representing an operating unit within the business segment of manufacture and sales of acoustic related products.

The recoverable amount of the CGU is determined from value in use calculations. These calculations use cash flow projections based on latest financial budgets approved by management covering a five year period, using an applicable discount rate. No impairment loss was considered necessary.

14. Prepaid Lease Payments

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

15. Foreign Exchange Linked Notes

	2008 **RMB'000**	2007 RMB'000
US$5 million principal protected linked note	**41,815**	43,754
US$5 million autocallable linked note	**39,108**	41,878
At 31st December	**80,923**	85,632

In September 2006, the Group acquired a 3 year US$5 million unsecured, interest-free principal protected linked note (the "Note"), which will mature on 13th October, 2009 (the "Note Maturity Date") from an independent investment bank (the "Investment Bank"). On the Note Maturity Date the Note will be redeemed at 100% plus a variable redemption amount which will be determined based on the exchange rate of RMB to US$ on 28th September, 2009, as reported by the People's Bank of China ("PBOC"). The Note includes the loan component and embedded derivative (including the forward foreign currency contract).

15. Foreign Exchange Linked Notes (continued)

In December 2006, the Group acquired a 3 year US$5 million unsecured, interest-free autocallable linked note (the "Callable Note"), which will mature on 29th December, 2009 (the "Maturity Date") from the Investment Bank. The Callable Note will be automatically redeemed at 100% plus a variable redemption amount if the exchange rate between RMB and US$, as reported by the PBOC reaches a certain rate at certain predetermined dates. On the Maturity Date the Callable Note will be redeemed at 100% plus a variable redemption amount which will be determined based on the exchange rate of RMB to US$ on 11th December, 2009, as reported by the PBOC. The Callable Note includes the loan component and embedded derivatives (including the forward foreign currency contract and the autocallable derivative).

Upon initial recognition, the Note and Callable Note are designated as financial assets at fair value through profit or loss as the above notes contain one or more embedded derivatives which are not closely related to the economic characteristics and risks of the host contract (the loan component). As at 31st December, 2008 the fair value of the Note and Callable Note were determined based on the redemption prices using forward exchange rates as at year end date, as quoted by the Investment Bank.

16. Intangible Assets

	Development expenditure RMB'000
COST	
At 1st January, 2007	—
Additions	36,375
At 31st December, 2007	36,375
Additions	4,041
At 31st December, 2008	40,416
AMORTISATION	
At 1st January, 2007	—
Charge for the year	4,643
At 31st December, 2007	4,643
Charge for the year	6,647
At 31st December, 2008	11,290
CARRYING VALUE	
At 31st December, 2008	29,126
At 31st December, 2007	31,732

Development expenditure represents the Group's development cost in Micro Electro-Mechanical Systems Technology which are used to enhance the Group's current products. Amortisation is provided to write off the cost of development expenditure, using the straight line method, over its estimated useful life of 5 years.

17. Inventories

	2008 RMB'000	2007 RMB'000
Raw materials	**118,074**	133,970
Work in progress	**33,229**	37,237
Finished goods	**144,459**	99,822
	295,762	271,029

18. Trade and Other Receivables

	2008 RMB'000	2007 RMB'000
Trade receivables	**455,861**	668,757
Bank acceptance bills	**1,326**	25,800
	457,187	694,557
Advanced payment to suppliers	**16,301**	22,978
Loan receivables	**50,000**	—
Other receivables	**39,642**	44,691
	563,130	762,226

The loan receivable represents a loan advanced by the Group to an independent third party during the year. The loan bears interest at 4.7% per annum, is repayable within one year and is secured by a guarantee from a bank. Other receivables are unsecured, interest-free and is repayable on demand. In the opinion of the directors, the other receivables and loan receivables are recoverable within one year from the balance sheet date.

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

	2008 RMB'000	2007 RMB'000
Age		
Not yet due	**387,247**	568,156
Overdue 0–90 days	**66,028**	126,401
Overdue 91–180 days	**3,052**	—
Overdue over 180 days	**860**	—
	457,187	694,557

18. Trade and Other Receivables (continued)

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB69,940,000 (2007: RMB126,401,000) which are past due at the reporting date for which the Group has not provided for allowances. The Group based on historical experience considers the amounts which have past due and which allowances has not been provided to be of good credit quality and are generally recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2008 RMB'000	2007 RMB'000
Overdue 0–90 days	**66,028**	126,401
Overdue 91–180 days	**3,052**	—
Overdue over 180 days	**860**	—
Total	**69,940**	126,401

The following is a movement in the allowance for bad and doubtful debts account:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**5,685**	4,956
Currency realignment	**(147)**	(89)
Allowance for bad and doubtful debts	**6,068**	835
Reversal of allowance for bad and doubtful debts	**(1,865)**	—
Amounts written off	**—**	(17)
Balance at end of the year	**9,741**	5,685

Allowances are recognised based on the Group's historical experience, aging analysis and internal assessment of the recoverability of the debt.

The Group's trade receivables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008 RMB'000	2007 RMB'000
US$	**17,957**	397,242
EURO	**43,105**	6,537
Japanese Yen	**20,177**	—

19. Amount due from a Minority Shareholder of a Subsidiary

The amount is unsecured, interest-free and is repayable on demand. In the opinion of the directors, the amounts are recoverable within one year from the balance sheet date.

20. Amounts due from (to) Related Companies

Details of the amounts due from related companies, in which close family members of Ms. Ingrid Wu Chunyuan and Mr. Benjamin Pan Zhengmin, directors of the Company have beneficial interest, are as follows:

Name of related company	Balance at 31.12.2008 RMB	Balance at 1.1.2008 RMB	Maximum amount outstanding during the year RMB
深圳市遠宇實業有限公司	19,024	—	26,437
常州遠宇精密模具製造有限公司	128	—	128
	19,152	—	

The above amounts are unsecured, interest-free and are repayable on demand. The amount due from 深圳市遠宇實業有限公司 was resulted from acquisition of a subsidiary during the year, see note 26(a).

The amounts due to related companies are unsecured, interest-free and are repayable on demand. Certain close family members of the substantial shareholders of the Company have beneficial interests in these related companies.

In the opinion of the directors, the amounts are recoverable within one year from the balance sheet date.

21. Pledged Bank Deposits and Bank Balances and Cash

The pledged bank deposits and bank balances carry variable and fixed interest rates ranging from 0% to 4.14% (2007: 0% to 5.29%). The pledged bank deposits are pledged to banks to secure letters of credit and the notes payables as set out in note 22.

The Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008 RMB'000	2007 RMB'000
US$	**114,019**	158,412
HK$	**486**	2,252
Japanese Yen	**1**	54,298
Euro	**28,010**	—

22. Trade and Other Payables

	2008 RMB'000	2007 RMB'000
Trade payables	**168,156**	194,112
Notes payables — secured	**58,209**	44,202
	226,365	238,314
Payroll and welfare payables	**67,909**	79,542
Consideration payable for acquisition of subsidiaries	**2,040**	—
Other payables and accruals	**69,452**	97,065
	365,766	414,921

Other payables are unsecured, interest-free and have no fixed repayment terms.

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

	2008 RMB'000	2007 RMB'000
Age		
Not yet due	**220,921**	234,686
Overdue 0–90 days	**159**	1,872
Overdue 91–180 days	**82**	180
Overdue over 180 days	**5,203**	1,576
	226,365	238,314

The Group's trade payables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008 RMB'000	2007 RMB'000
US$	**205**	1,783
HK$	**453**	834
Japanese Yen	**18,631**	5,117
Others	**416**	—

23. Short-term Bank Loans

The short-term bank loans are denominated in US$, which is not the functional currency of the relevant group entities holding such short-term bank loans, are unsecured and carry interest ranging from 0.8% to 1.25% per annum over London Inter-bank Offered Rate ("LIBOR") (as at 31st December, 2007: 1.25% per annum over LIBOR).

24. 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, 2007, 31st December, 2007 and 31st December, 2008	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2007	1,248,000,000	12,480
Shares repurchased and cancelled	(10,000,000)	(100)
Ordinary shares at 31st December, 2007	1,238,000,000	12,380
Shares repurchased and cancelled	(10,000,000)	(100)
Ordinary shares at 31st December, 2008	1,228,000,000	12,280

	RMB'000
Shown in the balance sheet at 1st January, 2007	101,342
Shares repurchased and cancelled	(812)
Shown in the balance sheet at 1st January, 2008	100,530
Shares repurchased and cancelled	(812)
At 31st December, 2008	99,718

24. Share Capital (continued)

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of US$0.01 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid RMB'000
January 2008	4,000,000	7.84	6.66	27,019
February 2008	1,500,000	6.10	6.05	8,367
April 2008	4,500,000	7.76	6.90	30,185

In 2007, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of US$0.01 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid RMB'000
May 2007	6,416,000	7.56	7.26	46,520
June 2007	3,584,000	7.99	7.86	27,835

The above shares were cancelled upon repurchase and have been debited to the share capital and share premium account.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

25. Share Option Scheme

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

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

25. Share Option Scheme (continued)

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

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

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

26. Acquisition of a Subsidiary/Business

(a) Acquisition of a subsidiary

During the year, the Group acquired the entire paid-in capital of Shenzhen Meiou from certain companies in which close family members of certain substantial shareholders have beneficial interest. Total consideration paid for the acquisition was RMB120,000,000 which was determined based on the net asset value of Shenzhen Meiou at the date of acquisition. At date of acquisition, Shenzhen Meiou was not engaged in any business activity and therefore the acquisition was accounted for as acquisition of assets and assumed liabilities.

The difference between total consideration paid and the fair value of the net assets acquired of RMB23,391,000 was deemed as capital contribution from the substantial shareholders and credited against capital reserve.

26. Acquisition of a Subsidiary/Business (continued)

(a) Acquisition of a subsidiary (continued)

The net assets acquired at the date of acquisition were as follows:

	Book value RMB'000	**Fair value adjustment** RMB'000	**Fair value** RMB'000
Property, plant and equipment	82,678	12,519	95,197
Prepaid lease payments	8,244	14,528	22,772
Amount due from a shareholder	26,437	—	26,437
Other receivables	13,571	—	13,571
Bank balances and cash	2,442	—	2,442
Other payables	(17,028)	—	(17,028)
	116,344	27,047	143,391
Discount on acquisition			(23,391)
			120,000
Net cash outflow arising on acquisition:			
Cash consideration			120,000
Balance of consideration payable			(1,240)
Cash and cash equivalents acquired			(2,442)
Net outflow of cash and cash equivalents arising on acquisition			116,318

26. Acquisition of a Subsidiary/Business (continued)

(b) Acquisition of a business

In August 2008, the Group acquired 51% of the issued share capital of Beijing Technology for a consideration of RMB1,750,000 from an independent third party and has also agreed to contribute RMB8,000,000 into Beijing Technology. Beijing Technology is engaged in development and sales of high-performance mixed-signal integrated circuits. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	226
Inventories	687
Trade and other receivables	392
Bank balances and cash	4
Trade and other payables	(608)
	701
Minority interests	(701)
Goodwill	1,750
	1,750
Net cash outflow arising on acquisition:	
Cash consideration	1,750
Balance of consideration payable to a third party	(800)
Cash and cash equivalents acquired	(4)
Net outflow of cash and cash equivalents arising on acquisition	946

The carrying values of the net assets of Beijing Technology before the combination approximated their fair values, accordingly no fair value adjustments were made.

The goodwill is attributable to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

Beijing Technology contributed a profit of RMB238,000 for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed in the beginning of the year, based on the unaudited management accounts of the subsidiary, the impact on the Group's revenue and profit for the year would have been insignificant.

27. Operating Lease Commitments

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

	2008 RMB'000	2007 RMB'000
Within one year	**13,708**	16,464
In the second to fifth year inclusive	**10,348**	9,456
	24,056	25,920

Leases are negotiated and rentals are fixed for a lease term of 3 to 4 years.

28. Capital Commitments

	2008 RMB'000	2007 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**49,535**	82,471

29. Retirement Benefits Scheme

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

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

30. Related Party Transactions

In addition to the related party transaction disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties:

Relationship of related parties	**Nature of transactions**	**2008 RMB'000**	2007 RMB'000
Minority shareholder of a subsidiary	Purchase of raw materials	—	321
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	**12,125**	7,233
	Property rentals paid	**6,967**	6,278
	Purchase of property, plant and equipment	**445**	2,665
	Sales of raw materials	**109**	—
Close family members of the directors of the Company	Property rentals paid	**1,681**	2,060
Substantial shareholders	Property rentals paid	**573**	629

Emoluments paid to the key management personnel of the Company which represents the executive directors of the Company and the five highest paid individuals, are set out in note 9.

Balances with related parties are disclosed in notes 19 and 20 to the consolidated financial statements.

31. Principal Subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2007 and 31st December, 2008, are as follows:

Name of subsidiary	**Country of establishment/ operations**	**Nominal value of issued and fully paid share/ registered capital**	**Principal activities**
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (note a)	PRC	Registered capital — US$8,000,000	Manufacture and sales of acoustic products, research and development
AAC Acoustic Technologies Limited	Hong Kong	Ordinary shares — HK$10,000	Sales of acoustic related products

31. Principal Subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲開泰聲學科技(上海)有限公司 AAC Acoustic Technologies (Shanghai) Co., Ltd. (note b)	PRC	Registered capital — US$1,680,000	Manufacture and sales of headsets and electronic components, research and development
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (note c)	PRC	Registered capital — US$23,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (note i)	PRC	Registered capital — US$5,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. (note h)	PRC	Registered capital — US$59,800,000	Manufacture and sales of digital cameras and its accessories, electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (note d)	PRC	Registered capital — US$21,500,000	Manufacture and sales of precision components and acoustic products, research and development
瑞聲精密製造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (note e)	PRC	Registered capital — US$49,800,000	Manufacture and sales of tooling and precision components for acoustic products

31. Principal Subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
常州泰瑞美電鍍科技有限公司 Changzhou Tairumei Electroplating Technology Co., Ltd. (note f)	PRC	Registered capital — RMB1,000,000	Provision of electroplating service
深圳泰瑞美精密器件有限公司 Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd. (note g)	PRC	Registered capital — US$5,000,000	Manufacture and sales of acoustic products and tooling and precision components for acoustic products
YEC Electronics Limited	Hong Kong	Ordinary shares — HK$10,000	Sales of acoustic related products

Notes:

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

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

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

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

(e) *Wholly-owned foreign enterprise for a term of 20 years commencing 8th May, 2007.*

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

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

(h) *Wholly-owned foreign enterprise for a term of 50 years commencing 13th April, 2006.*

(i) *Wholly-owned foreign enterprise for a term of 20 years commencing 8th November, 2006.*

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

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

Financial Summary

	Year ended 31st December,				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
RESULTS					
Revenue	626,847	1,073,744	1,773,371	1,952,212	**2,256,022**
Profit before taxation	227,827	353,592	600,032	597,978	**616,241**
Taxation	(29,484)	(20,271)	(31,515)	(49,936)	**(25,638)**
Profit for the year	198,343	333,321	568,517	548,042	**590,603**
Attributable to:					
Equity holders of the Company	197,653	332,859	570,314	551,133	**590,434**
Minority interests	690	462	(1,797)	(3,091)	**169**
	198,343	333,321	568,517	548,042	**590,603**

	As at 31st December,				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	825,309	1,791,921	2,542,223	3,211,748	**3,704,217**
Total liabilities	(565,514)	(253,478)	(417,175)	(623,773)	**(589,014)**
Net assets	259,795	1,538,443	2,125,048	2,587,975	**3,115,203**
Attributable to:					
Equity holders of the Company	256,794	1,538,443	2,111,135	2,577,336	**3,107,768**
Minority interests	3,001	—	13,913	10,639	**7,435**
	259,795	1,538,443	2,125,048	2,587,975	**3,115,203**

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