1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands. The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 28. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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

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

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

2. POTENTIAL IMPACT ARISING FROM RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

Property, plant and equipment

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Land use rights

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

Borrowing costs

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

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

Inventories

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

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

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

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

Other financial liabilities

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

Redeemable convertible preferred shares

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

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

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

Derivatives

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Foreign currencies

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

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

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

Operating leases

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Credit risk

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

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

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

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

Geographical segments

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

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

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information

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

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAXATION

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

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

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

The emoluments were within the following bands:

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

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

9. TAXATION

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

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

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

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

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

9. TAXATION (Continued)

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

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

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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

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

13. LAND USE RIGHTS

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

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

14. INVENTORIES

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

15. TRADE AND OTHER RECEIVABLES

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

15. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

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

16. AMOUNTS DUE FROM RELATED COMPANIES

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

17. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

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

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

18. TRADE AND OTHER PAYABLES

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

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

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

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

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

19. AMOUNTS DUE TO RELATED COMPANIES

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

20. SHORT-TERM BANK LOANS

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

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

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

21. REDEEMABLE CONVERTIBLE PREFERRED SHARES

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

21. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

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

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

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

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

22. SHARE CAPITAL

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

22. SHARE CAPITAL (Continued)

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

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

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

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

In 2005:

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

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

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

22. SHARE CAPITAL (Continued)

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

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

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

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

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

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

23. SHARE OPTION SCHEME

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

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

23. SHARE OPTION SCHEME (Continued)

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

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

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

24. OPERATING LEASE COMMITMENTS

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

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

25. CAPITAL COMMITMENTS

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

26. RETIREMENT BENEFITS SCHEME

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

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

27. RELATED PARTY TRANSACTIONS

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

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

28. PRINCIPAL SUBSIDIARIES

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

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

28. PRINCIPAL SUBSIDIARIES (Continued)

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

* Directly held by the Company.

28. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

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

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

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

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

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

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

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

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

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

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