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 "Corporation 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 28.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised applicable International Accounting Standards ("IAS"), interpretations and International Financial Reporting Standards ("IFRS") (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financing Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1st December, 2005 or 1st January, 2006. The adoption of these new IFRSs has had no material effect on how the results and the financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, interpretations and amendment that were issued but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IFRS 7	Financial instruments: Disclosures[1]
IFRS 8	Operating segments[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim financial reporting and impairment[6]
IFRIC 11	IFRS 2: Group and treasury share transactions[7]
IFRIC 12	Service concession arrangements[8]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2009.
3 Effective for annual periods beginning on or after 1st March, 2006.
4 Effective for annual periods beginning on or after 1st May, 2006.
5 Effective for annual periods beginning on or after 1st June, 2006.
6 Effective for annual periods beginning on or after 1st November, 2006.
7 Effective for annual periods beginning on or after 1st March, 2007.
8 Effective for annual periods beginning on or after 1st January, 2008.

The directors anticipate that the adoption of these new standards, interpretations or amendment in the future periods will have no material impact on the results and 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 IFRS 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 use. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

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.

Land use rights

Payment for obtaining land use rights is considered as an 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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 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 HKAS 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)

Foreign exchange linked notes

Foreign exchange linked notes comprise the host loan component and embedded derivatives (including the forward foreign currency contract and/or autocallable derivative) acquired by the Group and are designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire foreign exchange linked notes are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the acquisition of the foreign exchange linked notes designated as financial assets at fair value through profit or loss are recognised immediately in profit or loss.

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, amount due from a minority shareholder of a subsidiary, restricted bank deposits and bank balances) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

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 they are removed from the balance sheet (i.e. 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.

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.

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.

Subsequent to initial recognition, an internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

When 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.

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 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.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. The grants are recognised when there is reasonable assurance that the grants will be recovered unconditionally.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (other than intangible 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 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 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 contribution.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include foreign exchange linked notes, trade receivables, bank balances, 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 Group have foreign currency sales, trade receivables and bank deposits that are denominated in foreign currencies other than its respective functional currencies and thus exposes 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.

As disclosed in note 13, during the year the Group has entered into foreign exchange linked contracts to minimise the effect of exchange rate fluctuations between the RMB and the US dollar.

Credit risk

The Group's financial assets are foreign exchange linked notes, trade and other receivables and bank balances, 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 risks on liquid funds and foreign exchange linked notes are 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 and the maximum exposure to credit risk in respect of such concentration is the carrying amount of trade receivables as stated in the respective note. However management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank deposits (see note 17). The management consider the Group's exposure of the variable-rate bank deposits to interest rate risk is not significant as the variable-rate bank deposits are within short maturity period.

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

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

Geographical segments

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

	2006	2005
	RMB'000	RMB'000
Turnover		
— USA	**684,599**	375,625
— Greater China	**813,932**	522,436
— Asia (excluding Greater China)	**106,692**	92,765
— Europe	**168,148**	82,918
	1,773,371	1,073,744
Results:		
Segment results		
— USA	**222,740**	136,217
— Greater China	**241,788**	154,372
— Asia (excluding Greater China)	**37,214**	28,213
— Europe	**55,812**	25,956
	557,554	344,758
Other income	**17,016**	9,713
Interest income	**28,448**	9,253
Fair value gain on foreign exchange linked notes	**860**	—
Unallocated expenses	**(3,219)**	(2,505)
Finance costs	**(627)**	(7,627)
Profit before taxation	**600,032**	353,592
Taxation	**(31,515)**	(20,271)
Profit for the year	**568,517**	333,321

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:

	2006	2005
	RMB'000	RMB'000
Segment assets		
— USA	**629,084**	303,203
— Greater China	**617,819**	394,199
— Asia (excluding Greater China)	**82,665**	71,276
— Europe	**115,255**	64,569
	1,444,823	833,247
Unallocated	**1,097,400**	958,674
	2,542,223	1,791,921
Segment liabilities		
— USA	**132,030**	72,746
— Greater China	**204,383**	115,189
— Asia (excluding Greater China)	**19,571**	16,401
— Europe	**29,191**	16,888
	385,175	221,224
Unallocated	**32,000**	32,254
	417,175	253,478

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information

	2006 **RMB'000**	2005 RMB'000
Capital additions		
— USA	**108,716**	51,420
— Greater China	**177,516**	83,103
— Asia (excluding Greater China)	**16,458**	12,322
— Europe	**24,194**	16,352
	326,884	163,197
Depreciation		
— USA	**14,743**	8,986
— Greater China	**27,515**	17,743
— Asia (excluding Greater China)	**2,264**	2,176
— Europe	**3,657**	2,469
	48,179	31,374

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

6. FINANCE COSTS

	2006 **RMB'000**	2005 RMB'000
Interest on		
— bank borrowings wholly repayable within five years	**756**	3,873
— redeemable convertible preferred shares	**—**	3,891
	756	7,764
Less: Interest capitalised in construction in progress	**(129)**	(137)
	627	7,627

7. PROFIT BEFORE TAXATION

	2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 8)*	**3,219**	2,505
Other staff's retirement benefits scheme contributions	**17,460**	11,188
Other staff costs	**336,243**	188,934
Total staff costs	**356,922**	202,627
Less: Staff costs included in research and development costs	**(29,542)**	(13,403)
	327,380	189,224
Depreciation	**48,179**	31,374
Less: Depreciation included in research and development costs	**(3,802)**	(1,779)
	44,377	29,595
Auditors' remuneration	**1,840**	1,579
Allowance for bad and doubtful debts	**3,726**	396
Cost of inventories recognised as expense	**902,121**	546,010
Impairment loss on property, plant and equipment	**413**	—
Loss on disposal of property, plant and equipment	**540**	212
Operating lease rentals in respect of		
— equipment	**—**	200
— building premises	**13,846**	11,260
— land use rights	**594**	692
Research and development costs	**48,783**	26,189
Net exchange loss	**41,790**	8,827
and after crediting:		
Government subsidies*	**11,999**	5,872
Fair value gain on foreign exchange linked notes	**860**	—
Interest income from bank balances and deposits	**28,448**	9,253

* The amount represents the incentive subsidies granted by the PRC local authorities to the Group. All the grants were approved and received during the year.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Benjamin Pan Zhengmin	Ingrid Wu Chunyuan	Yang Dong Shao	Thomas Ng Kalon	Koh Boon Hwee	Dick Chang Mei	Richard Mok JoeKuen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31st December, 2006								
Fees	—	113	97	—	169	128	149	656
Salaries and other benefits	1,704	—	—	—	—	—	—	1,704
Bonus	859	—	—	—	—	—	—	859
Total directors' emoluments	2,563	113	97	—	169	128	149	3,219
31st December, 2005								
Fees	—	116	100	100	174	131	153	774
Salaries and other benefits	1,731	—	—	—	—	—	—	1,731
Total directors' emoluments	1,731	116	100	100	174	131	153	2,505

Note: Bonus is determined based on performance of directors.

Employees' emoluments

The five highest paid individuals included one (2005: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2005: four) highest paid individuals are as follows:

	2006	2005
	RMB'000	RMB'000
Employees		
— basic salaries and allowances	**4,543**	4,523
— bonus	**14,556**	6,993
— retirement benefits scheme contributions	**—**	46
	19,099	11,562

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments (Continued)

The emoluments were within the following bands:

	Number of employees	
	2006	2005
RMB1,500,001 to RMB2,000,000	**—**	1
RMB2,500,001 to RMB3,000,000	**1**	1
RMB3,000,001 to RMB3,500,000	**—**	1
RMB3,500,001 to RMB4,000,000	**1**	1
RMB6,000,001 to RMB6,500,000	**1**	—
RMB6,500,001 to RMB7,000,000	**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 RMB97,000. No directors has waived any emoluments in 2005.

9. TAXATION

	2006	2005
	RMB'000	RMB'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	**148**	1,859
PRC income tax	**31,659**	18,992
Overseas taxation	**(292)**	(580)
	31,515	20,271

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. The exemption will expire gradually up to 2010.

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:

	2006 RMB'000	2005 RMB'000
Profit before taxation	**600,032**	353,592
Tax at the applicable income tax rate	**144,008**	84,862
Tax effect of income not taxable for tax purposes	**(5,386)**	(1,455)
Tax effect of expenses not deductible for tax purposes	**8,299**	8,052
Income tax at concessionary rate	**(110,861)**	(70,947)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,804)**	(229)
Others	**(741)**	(12)
Tax charge for the year	**31,515**	20,271

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. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2006 is based on the profit for the year attributable to equity holders of the Company of RMB570,314,000 (2005: RMB332,859,000) and on the weighted average number of ordinary shares of 1,248,000,000 shares in issue during the year (2005: 1,071,998,107 shares on the assumption that the group reorganisation and the capitalisation issue, as more fully described in Appendix V of the prospectus of the Company dated 28th July, 2005, have been effective on 1st January, 2005).

11. 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, 2005	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
Currency realignment	—	(94)	(10)	—	—	—	(104)
Additions	—	46,568	2,169	1,893	156,588	119,666	326,884
Disposals	—	(672)	(629)	(581)	(797)	—	(2,679)
Transfers	16,659	7,175	—	2,167	29,559	(55,560)	—
At 31st December, 2006	57,203	120,598	2,891	12,166	465,902	89,219	747,979
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2005	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
Currency realignment	—	(78)	(5)	—	—	—	(83)
Provided for the year	1,742	13,198	539	1,543	31,157	—	48,179
Eliminated on disposals	—	(320)	—	(447)	(356)	—	(1,123)
Impairment loss	413	—	—	—	—	—	413
At 31st December, 2006	6,084	37,690	1,346	4,209	79,808	—	129,137
CARRYING VALUES							
At 31st December, 2006	51,119	82,908	1,545	7,957	386,094	89,219	618,842
At 31st December, 2005	36,615	42,731	549	5,574	231,545	25,113	342,127

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

Bank interest of RMB129,000 (2005: RMB137,000) was capitalised under construction in progress.

12. LAND USE RIGHTS

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

13. FOREIGN EXCHANGE LINKED NOTES

	2006	2005
	RMB'000	RMB'000
US$5 million principal protected linked note	**40,188**	—
US$5 million autocallable linked note	**39,100**	—
At 31st December, 2006	**79,288**	—

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 "Maturity Date") from an independent investment bank (the "Investment Bank"). On the 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 U.S. dollars 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).

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 U.S. dollars, 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 U.S. dollars 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 they contain one or more embedded derivative(s) which are not closely related to the economic characteristics and risks of the host contract (the loan component). As at 31st December, 2006 the fair value of the Note and Callable Note were determined based on the redemption price as quoted by the Investment Bank.

14. INVENTORIES

	2006	2005
	RMB'000	RMB'000
Raw materials	**81,601**	51,274
Work in progress	**36,709**	22,187
Finished goods	**70,160**	42,776
	188,470	116,237

15. TRADE AND OTHER RECEIVABLES

	2006 **RMB'000**	2005 RMB'000
Trade receivables	**492,481**	309,423
Bank acceptance bills	**14,646**	5,317
	507,127	314,740
Advanced payment to suppliers	**12,725**	4,627
Other receivables	**34,074**	28,258
	553,926	347,625

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 and bank acceptance bills at the balance sheet date:

	2006 **RMB'000**	2005 RMB'000
Age		
Not yet due	**439,498**	288,809
Overdue 0–90 days	**62,816**	25,668
Overdue 91–180 days	**3,890**	67
Overdue over 181 days	**5,879**	1,426
	512,083	315,970
Allowance for bad and doubtful debts	**(4,956)**	(1,230)
	507,127	314,740

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

	2006 **RMB'000**	2005 RMB'000
United States dollars	**368,761**	196,660
Others	**5,843**	2,958

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

16. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and is recoverable within one year from the balance sheet date. The directors consider the carrying amount of amount due from a minority shareholder of a subsidiary approximates its fair value.

17. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

The restricted bank deposits and bank balances carry interests ranging from 0% to 5.31%. The restricted bank deposits are pledged to banks to secure the letter of credit and notes payables, as set out in note 18.

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

The Group's restricted 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:

	2006 **RMB'000**	2005 RMB'000
United States dollars	**372,546**	182,018
Hong Kong dollars	**2,665**	525,510
Japanese Yen	**22,132**	1,417
Others	**7,605**	4,148

18. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Trade payables	**186,924**	113,620
Notes payables — secured	**52,509**	32,134
	239,433	145,754
Payroll and welfare payables	**59,706**	33,144
Other payables	**74,871**	40,390
	374,010	219,288

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

	2006 RMB'000	2005 RMB'000
Age		
Not yet due	**224,295**	143,758
Overdue 0–90 days	**13,660**	1,459
Overdue 91–180 days	**47**	145
Overdue over 181 days	**1,431**	392
	239,433	145,754

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

19. AMOUNTS DUE TO RELATED COMPANIES

The amounts 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. 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, 2006, are unsecured and carry interest at a fixed rate of 5.03% (2005: 4.70%).

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

21. SHARE CAPITAL

	Number of shares			
	Ordinary shares	Series A preferred shares	Series B preferred shares	Amount
				US$'000
Authorised:				
Shares of US$0.1 each				
— 1st January, 2005	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 and 31st December, 2006	4,975,000,000	15,000,000	10,000,000	50,000
Issued and fully paid:				
Shares of US$0.1 each				
— 1st January, 2005	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 and at 31st December, 2006	1,248,000,000	—	—	12,480

	RMB'000
Shown in the balance sheet	
— at 31st December, 2005 and 31st December, 2006 as	101,342

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.

21. SHARE CAPITAL (Continued)

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 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 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.

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.

22. SHARE OPTION SCHEME (Continued)

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.

23. 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:

	2006 **RMB'000**	2005 RMB'000
Within one year	**12,343**	12,469
In the second to fifth year inclusive	**16,819**	17,782
	29,162	30,251

24. CAPITAL COMMITMENTS

	2006	2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**80,771**	56,479

25. CONTINGENT LIABILITY

During the year, the Company and a subsidiary has been named as a defendant in a United States District Court action in respect of an alleged claim of trade secret misappropriation under the Illinois Trade Secrets Act (the "Complaint"). The Complaint seeks injunctive relief and damages in an amount in excess of US$1,000,000. The Group believes that it has meritorious defenses to the Complaint and thus no provision for any potential liability has been made in these consolidated financial statements.

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	2006 RMB'000	2005 RMB'000
Companies controlled by substantial shareholders of the Company	Sales of goods	**—**	52
	Purchase of raw materials	**—**	9,186
	Purchase of property, plant and equipment	**—**	—
	Equipment rentals paid	**—**	200
	Property rentals paid	**—**	6,165
Minority shareholder of a subsidiary	Prepaid license rights	**15,615**	—
	Purchase of property, plant and equipment	**3,535**	—
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	**9,422**	—
	Property rentals paid	**6,216**	—
Close family members of the directors of the Company	Property rentals paid	**2,059**	—
Substantial shareholders	Property rentals paid	**646**	2,970

Emoluments paid to the key management personnel of the Company which represents the directors of the Company and the five highest paid individuals are set out in note 8.

Balances with related parties are disclosed in notes 16 and 19 to the consolidated financial statements.

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
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd.* *(note c)*	PRC	US$13,000,000	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
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. *(note i)*	PRC	US$50,000,000	Manufacture and sales of digital cameras and its accessories, electronic components, research and development
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. *(note j)*	PRC	US$5,000,000	Manufacture and sales of precision components for acoustic products, research and development

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