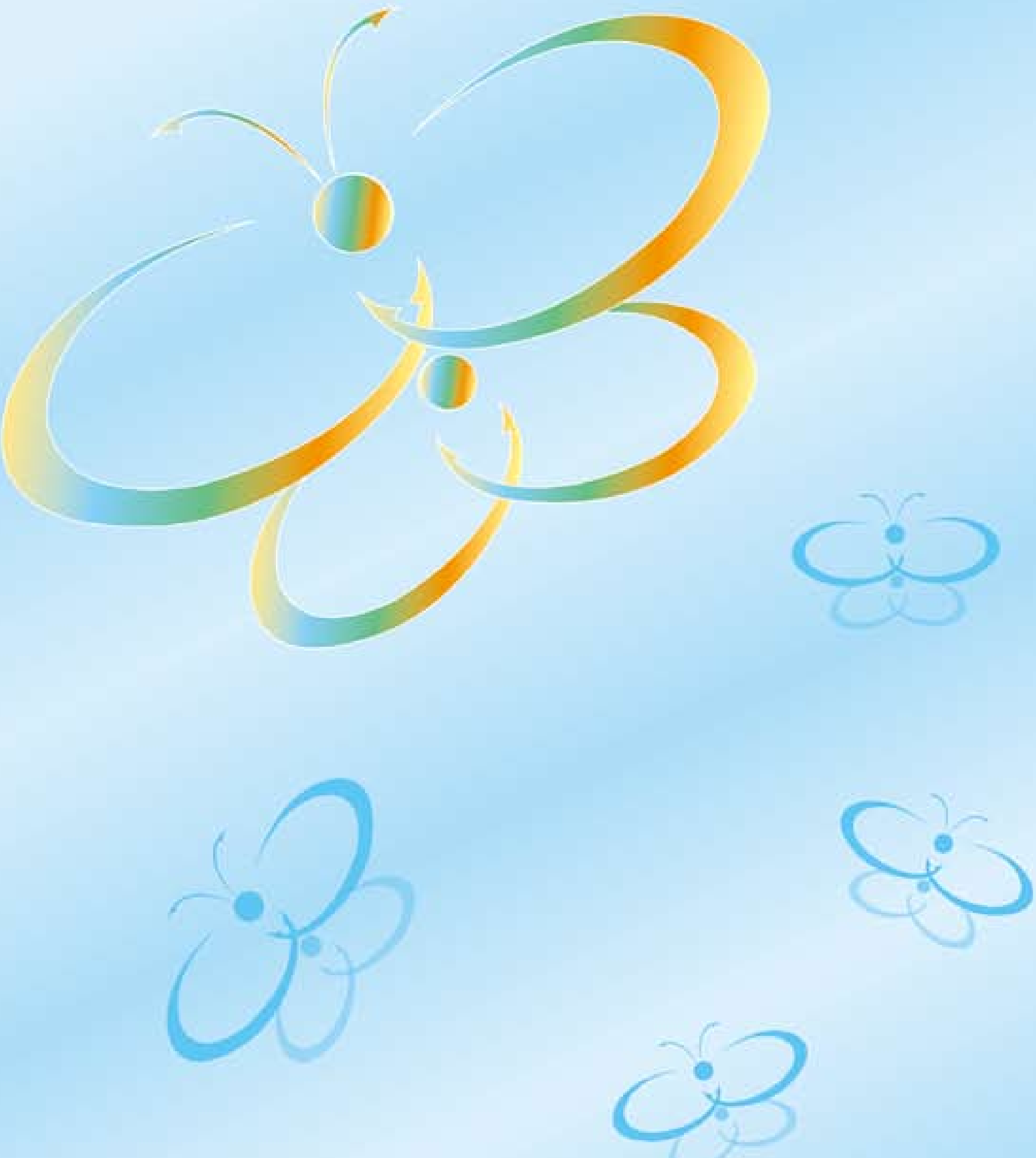
AAC Acoustic Technologies Holdings Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code : 2018



Annual Report 2007

Contents

Corporate Information

DIRECTORS

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

Non-executive Directors
Ms. Ingrid Chunyuan Wu
Mr. Pei Kang
Dr. Thomas Kalon Ng

Independent non-executive Directors
Mr. Koh Boon Hwee *(Chairman)*
Dr. Dick Mei Chang
Mr. Mok Joe Kuen Richard

COMPANY SECRETARY

Mr. Cheung Yuk Chuen

QUALIFIED ACCOUNTANT

Mr. Cheung Yuk Chuen

AUDIT COMMITTEE

Mr. Mok Joe Kuen Richard *(Chairman)*
Mr. Koh Boon Hwee
Ms. Ingrid Chunyuan Wu

REMUNERATION COMMITTEE

Mr. Koh Boon Hwee *(Chairman)*
Dr. Dick Mei Chang
Dr. Thomas Kalon Ng

NOMINATION COMMITTEE

Dr. Dick Mei Chang *(Chairman)*
Mr. Mok Joe Kuen Richard
Mr. Pei Kang

AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan
Mr. Cheung Yuk Chuen

Alternative authorized representative
Mr. Mok Joe Kuen Richard

CONTINUING FINANCIAL ADVISOR

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

AUDITORS

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

REGISTERED OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Unit 2003, 20/F.,
100 Queen's Road Central,
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513
Strathvale House North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Shenzhen Nantou Sub-branch
Bank of China
Wujin Sub-branch
The Hongkong and Shanghai Banking Corporation Ltd,
Hung Hom Branch

STOCK CODE

2018

WEBSITE

www.aacacoustic.com

Dear Shareholders,

2007 was a challenging and exciting year for AAC Acoustic Technologies Holdings Ltd ("AAC" or the "Company"). During the first half of the year, our revenues declined due to lower demand from selected customers. During the second half of the year, we received qualifications from three leading global companies that design and produce mobile handsets and other consumer handheld devices. These new customers are well-known for the stringent requirements on performance, quality, technology and reliability that they expect from their suppliers. We are proud to have been qualified by these customers as this is a strong endorsement of our superior research, product development and manufacturing capabilities.

We managed to end the year with growth in turnover and gross profit. Our turnover reached a record high of RMB1,952.2 million, which was 10.1% higher than our turnover of RMB1,773.4 million achieved in 2006. Our gross profit also rose to a record high of RMB923.5 million, representing an increase of 6.0% over the 2006 gross profit of RMB871.3 million.

During 2007, our high margin products such as receivers, speakers, multi-function devices and transducers together accounted for approximately 77.9% of total sales. As a result, we recorded a gross margin of 47.3%. Our net profit for equity holders in 2007 was RMB551.1 million versus RMB570.3 million in 2006. The decline in net profit for equity holders was mainly due to higher research and development expenses and legal fees. During 2007, we booked a total of RMB17.2 million in legal fees for the litigation against Knowles Electronics LLC ("Knowles"). Excluding legal fees, net profit for equity holders in 2007 would have been RMB568.3 million, translating into a net profit margin of 29.1%.

In December 2007, AAC and Knowles resolved all litigations in the US and China and entered into a world-wide cross-license agreement which should reinforce the strength of both companies' patent portfolios related to Micro-Electro-Mechanical Systems (MEMS) technology. We are happy with this arrangement as it encourages competition and stimulates innovation. We continue to charge ahead with the development of MEMS technology and there is no restriction on the sale of MEMS microphones from AAC. For more details on the litigation between AAC and Knowles, please visit the investor relations section of our website www.aacacoustic.com.

Having obtained many new customer qualifications, our market share in the mobile handset industry started to increase again during the second half of 2007 and we are well-positioned for significant growth in 2008 and beyond. Our plans to diversify into non-mobile handset industries are also well on-track. Our sales to customers in the game console, automobile and other consumer electronic industries are steadily growing. Our next target is to win component business from notebook companies.

AAC remains committed to technology advancement and the development of in-house intellectual properties. During 2007, we received 10 additional patents so that we now have a total of 55 patents. As of 31st December, 2007, we have filed another 63 patent applications which are pending for approval. We also intend to strengthen our technology platform via acquisitions. Our management team is committed to seeking out appropriate acquisition targets all over the world which can help to further strengthen the Company's existing technology base. In 2007, we acquired an antenna design house which helped with the development of our "speaker box with antenna" product.

Chairman Statement

To position ourselves for the longer term, we will strive to make further inroads in MEMS technology (MEMS microphones and MEMS accelerometers) and ceramic technology (including speakers, antennas, motors and sensors). We will also devote resources into the design and packaging of ASIC components as well as technologies related to active noise-cancellation and audio spotlight and the related digital processing methods and software development.

We are very excited about the future. Sound quality of mobile handsets and other consumer electronic devices is increasingly critical. This drives the need for more advanced acoustic components. AAC is well-positioned to further capture market share as we are one of the few companies in the world that can combine acoustic technology research together with product development capabilities, engineering expertise and manufacturing know-how to produce quality miniature acoustic components. Moreover, we intend to leverage on our existing technology platform and manufacturing know-how to go beyond acoustics and launch more non-acoustic miniature components. Ultimately, AAC's goal is to become the world's leading total solutions provider of a large variety of miniature components for use in different kinds of consumer electronic devices.

We are proud of what AAC has achieved. In October 2007, AAC made it to Forbes Asia's Annual "Best 200 Under a Billion" List. In November 2007, AAC was ranked 10th among "Asia's Hot Growth Companies in 2007" by BusinessWeek. Such achievements could not have been possible without the hard work and dedication of our staff and management team. I wish to record my deepest gratitude for the commitment of each and everyone at AAC and we look forward to a very rewarding 2008.

Koh Boon Hwee
Chairman

7th April, 2008

OVERVIEW

We are one of the world's leading manufacturers of miniature acoustic components. The Company designs, manufactures and distributes a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, transducers and headsets for use in mobile handsets, game consoles, notebook computers and other consumer electronics devices such as MP3 players and MP4 players. Recently, the Company launched a variety of miniature vibrators and also acquired an antenna design house in order to diversify into the production of non-acoustic components.

MARKET REVIEW

2007 was a challenging and exciting year for us. During the first half of the year, our revenue declined due to slower demand from certain key customers. Yet during the second half of the year, we received qualifications from three renowned global companies that design and produce mobile handset and other consumer electronic devices. We were able to ramp up product platforms for these customers very quickly. Hence, our revenue for 2007 was still higher than the revenue we attained in 2006. These new customers are well-known for their stringent requirements on quality, performance, technology and reliability that they expect from their suppliers. We are proud to have been qualified by such customers, as this is a strong endorsement of our superior research, product development and manufacturing capabilities.

In December 2007, Knowles Electronics LLC ("Knowles") and the Company resolved all litigations in the US and China and entered into a world-wide cross-license agreement which should reinforce the strength of both companies' patent portfolios related to MEMS technology. We are happy with this arrangement as it encourages competition and stimulates innovation. We continue to charge ahead with the development of MEMS technology and there is no restriction on our sale of MEMS microphones.

Our market share within the mobile handset industry continued to increase during 2007. Our plan to expand our customer base to include customers from other consumer electronic industries such as game consoles, notebooks and MP3 and MP4 players are also progressing well. We intend to leverage on our existing technology platform and manufacturing know-how to go beyond acoustics. As such, we have launched a variety of vibrators and acquired an antenna design house which helped with the development of the "speaker box with antenna" product.

Our research and development personnel made significant progress during 2007. We received 10 additional patents, so that we now have a total of 55 patents. As of 31st December, 2007, we have filed another 63 patent applications which are pending for approval.

FINANCIAL REVIEW

We experienced challenging year in 2007. But we still maintained a strong financial position, as we generated RMB374.2 million in net cash flows from operations for the year ended 31st December, 2007. Turnover of the Group for the year ended 31st December, 2007 amounted to RMB1,952.2 million, representing an increase of 10.1% from RMB1,773.4 million for the previous year. Gross profit amounted to RMB923.5 million, representing an increase of 6.0% from RMB871.3 million for the previous year. Profit attributable to equity holders of the Company amounted to RMB551.1 million, representing a decrease of 3.4% from RMB570.3 million for the previous year. Basic earnings per share amounted to RMB44.37 cents, representing a decrease of 2.9% from RMB45.70 cents for the previous year.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the short-term bank loans, by the total assets, as at 31st December, 2007 was 5.7% compared to 0.4% as at 31st December, 2006.

INDEBTEDNESS

As at 31st December, 2007, the Group had RMB182.3 million short-term bank loans compared with RMB10.0 million as at 31st December, 2006.

CONTINGENT LIABILITIES

In 2006, a subsidiary was 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 sought injunctive relief and damages for an unspecified amount. The Group believed that it has meritorious defenses to the Complaint and thus no provision for any potential liability was made.

During the year ended 31st December, 2007, the Complaint has been resolved and the Company has entered into a world-wide cross-licence agreement with the plaintiff.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2007, the Group had RMB1,024.5 million in cash and cash equivalents. In addition, the Group has pledged short-term bank deposits of RMB26.3 million. The Group had no long-term debt as at 31st December, 2007. The management believes the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current need of the Group for capital.

FOREIGN EXCHANGE

Majority of the Group's sales, purchases and operating expenses were denominated in RMB, U.S. dollars, Japanese yen, Hong Kong dollars and Euro. The Board believes that the Group has been and will continue to be exposed to foreign currency exchange risk. The Group does not have a formal hedging policy. Management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise. From the year of 2006, the Group has entered into foreign exchange linked contracts to minimise the effect of exchange rate fluctuations between the RMB and the U.S. dollars.

CHARGES ON GROUP ASSETS

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES

In July 2007, the Group acquired 76% of the issued share capital of AAC Wireless Technologies AB for a consideration of RMB7,710,000.

POST BALANCE SHEET EVENT

In January 2008, the Group has completed its acquisition of the entire paid-in capital of 深圳市美歐電子有限責任公司 (Shenzhen Meiou Electronics Co., Ltd.) ("Shenzhen Meiou"), a company which close family members of certain directors has beneficial interest in, for a total consideration of RMB120,000,000. Shenzhen Meiou was not engaged in any business activities as at date of acquisition.

INVESTMENTS ON TECHNOLOGY AND NEW PRODUCTS

Future plans for investments will focus on MEMS technology (including MEMS microphones and MEMS accelerometers), ceramic technology (including speakers, antennas, motors and sensors), SMD microphones, digital microphones, linear vibrators, SMD vibrators, pancake vibrators and speaker box with antenna. We will also devote resources into the design and packaging of ASIC components including digital/analog and analog/digital converters and power amplifiers for miniature speakers. Other key focus areas include the technologies related to active noise-cancellation, super audio as well as the related digital processing methods and software development.

EMPLOYEE INFORMATION

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

Employee remuneration includes salaries, allowances, social insurance or mandatory pension fund. As required by the relevant regulations in the PRC, the Group participated in the social insurance schemes operated by the relevant local government authorities. The Group also participated in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, Taiwan, United States of America ("USA") and Europe.

PROSPECTS

With a much more diversified customer base, we are well-positioned for strong growth in the year 2008 and beyond. We are well-known for our superior research and development capabilities as well as our ability to ramp up new product platforms quickly due to the flexibility brought about by our semi-automated manufacturing processes and fully vertically-integrated production model. We will strive to get qualified by both mobile handset customers as well as non-mobile handset customers such as companies that design and manufacture game consoles, notebook computers, and MP3 and MP4 players. We intend to go beyond acoustics and launch more non-acoustic miniature components. Ultimately, our goal is to become the world's leading solutions provider of a large variety of miniature components for use in different kinds of consumer electronic devices.

DIVIDENDS

From time to time, the Company will consider its financial position, results of operations, debt repayment ability, capital expenditures, Group's earnings and other factors as the Board may deem appropriate. The Board may recommend the amount of dividends to be declared and the declaration and payment of dividends will be determined by the shareholders in general meeting. No dividends have been paid or declared by the Company for the year ended 31st December, 2007.

DEFINITIONS

"MEMS microphone"	Micro Electro Mechanical Systems ("MEMS") microphones are compact, light weight and based on MEMS technology. MEMS is based on semiconductor technology which uses silicon to create pathways for electricity within components
"SMD"	Surface Mount Device which is readily fed into a SMT production line
"SMT"	Surface Mount Technology
"ASIC"	Application Specific Intergrated Circuits which is an intergrated circuit (IC) customized for a particular use, rather than intended for general-purpose use.

EXECUTIVE DIRECTOR

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 39, is an Executive Director and Chief Executive Officer of the Company. Mr. Pan co-founded our Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing our Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing, and other functions including quality assurance, finance and human resources. Mr. Pan has been instrumental in spearheading our Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and Chief Executive Officer of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing of our polyphonic speakers, miniature receivers, transducers and Electret Condenser Microphones. Mr. Pan graduated from the 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is spouse of Ms. Ingrid Chunyuan Wu.

NON-EXECUTIVE DIRECTORS

Ms. Ingrid Chunyuan Wu ("Ms. Wu"), aged 37, is a Non-Executive Director of the Company. Ms. Wu co-founded our Group in 1993. In 1996, she co-founded and later became Chief Financial Officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, Changzhou AAC in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as our Chief Operating Officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is Mr. Pan's spouse.

Mr. Pei Kang ("Mr. Kang"), aged 50, has been appointed to our Board since February 2007. He has over 25 years of working experience in the technology industry, including over 18 years of experience in various technical and management positions with IBM. He is currently a Managing Partner of Chengwei Ventures Shanghai LLC, a venture capital investment firm that focuses on investing in companies in China. Mr. Kang received a Bachelor of Science degree from Chinese Culture University, Taipei.

Dr. Thomas Kalon Ng ("Dr. Ng"), aged 54, has been appointed to our Board since November 2004. Dr. Ng has many years of management and investment experience in the high-technology industry. He is currently the Managing Director of Granite Global Ventures. He was the founder of Venture TDF in Singapore. Dr. Ng has advised the Government of Singapore in its development of "technopreneurship" and served on its advisory board. Dr. Ng has held senior management positions at Solar Energy Research Institute, E.I. DuPont de Nemours & Co. and Genelabs Technologies. Dr. Ng currently serves on the Board of Director for HYB Co., Ltd. He was a former board member of Oculex (acquired by Allergan). Dr. Ng earned a Bachelor's degree of Science in Bacteriology in 1975, a Master's degree of Science in Bacteriology in 1977 and a Doctor's degree in Bacteriology and Biochemistry in 1981 from the University of Wisconsin at Madison in the USA.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 57, is the Chairman of the Company. Mr. Koh has been appointed to our Board since November 2004. Mr. Koh brings with him extensive management experience and leadership. He is currently an Executive Director of MediaRing Limited, the Executive Chairman and Chief Executive Officer of Sunningdale Tech Ltd and Chairman of DBS Group Holdings Ltd and DBS Bank Ltd. Mr. Koh is also a Director of Temasek Holdings (Pte) Ltd. Mr. Koh also sits on the Board of Agilent Technologies, Inc. Mr. Koh is also the Chairman of the Nanyang Technological University Board of Trustees. Mr. Koh has over 20 years of experience in the IT-related and electronics industries. Mr. Koh was previously Chairman of Singapore Airlines Ltd (2001-2005), SIA Engineering Company Ltd (2003-2005), Singapore Telecom Group and its predecessor organizations (1986-2001), Omni Industries Ltd (1996-2001), Executive Chairman of Wuthelam Holdings Pte Limited (1991-2000) and, before that, Managing Director of Hewlett Packard Singapore (1985-1990), where he started his career in 1977. Mr. Koh graduated from the Imperial College, University of London, with a Bachelor's Degree (First Class Honours) in Mechanical Engineering. Mr. Koh also holds a Master's Degree in Business Administration (Distinction) from Harvard Business School. Mr. Koh was awarded Singapore's Public Service Star by the President of Singapore in 1991 and the Meritorious Service Medal in 1995.

Dr. Dick Mei Chang ("Dr. Chang"), aged 68, has been appointed to our Board since November 2004. Dr. Chang is currently the Chairman of Avago Technologies, a privately held semiconductor company headquartered in the USA and Singapore. Dr. Chang has over 30 years of experience in the development, manufacturing and marketing of semiconductor products. He joined Hewlett-Packard Company in 1967 as a member of the technical staff at HP Labs. Over the years, he held several managerial positions within the Semiconductor Products Group of HP. In 1999, the Semiconductor Products Group was spun off from HP and became part of Agilent Technologies, Inc ("Agilent"). Dr. Chang became Senior Vice President and General Manager of the Semiconductor Products Group of Agilent in 2002. In 2005 the Semiconductor Products Group of Agilent was acquired by investors and launched as Avago Technologies. Dr. Chang was the President and CEO of Avago Technologies. Dr. Chang received a Bachelor's degree in physics from the California Institute of Technology and a Doctor's degree in applied physics from Stanford University.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 44, has been appointed to our Board since April 2005. Mr. Mok is currently a Director at Ulmus Investment Limited, a Hong Kong-based private investment company. With over 20 years of experience in finance, Mr. Mok is a Hong Kong certified public accountant and a chartered accountant in the United Kingdom. Mr. Mok graduated from the London School of Economics and Political Science, London University.

SENIOR MANAGEMENT

Mr. Du Kuang-Yang (杜光洋) ("Mr. Du"), aged 58, is the Chief Operating Officer of the Company. Mr. Du has over 30 years' managerial experience in electronics manufacturing industry. From 2001 to 2005, Mr. Du was Vice President of Supply Chain Management of Solectron (Suzhou) Technology Co., Ltd.. From 1988 to 2001, Mr. Du worked for Motorola's various subsidiaries where he was the Managing Director of components products sector for Motorola's Tianjin subsidiary and General Manager of Personal Communication Sector for Motorola's Taiwan subsidiary. Mr. Du obtained a certificate in business administration from the National Taichung Institute of Technology (previously known as 台灣省立台中商業專科學校 (Taiwan Provincial School of Commerce of Tai-Chung)) in Taiwan in 1971. Mr. Du joined the Group in March 2005.

Mr. Li Xiang (李翔) ("Mr. Li"), aged 43, is the Senior Vice President of Business Strategy of the Company. Mr. Li assists our Chief Executive Officer in forming the business strategy for the Group and in exploring new markets. Mr. Li has over 16 years of experience in sales and marketing. From March 1998 to August 2000, he was head of the international trading department at Kaito Enterprises Corporation. Prior to that, he was head of the international trading department at China National Electronics Import & Export Shenzhen Company from February 1997 to March 1998. Mr. Li obtained a Bachelor's degree in Computer Science from Nankai University in the PRC in 1988. Mr. Li joined the Group in August 2000 and resigned in April 2008, which he only acts as a consultant of the Group.

Mr. Zhu Bingke (朱秉科) ("Mr. Zhu"), aged 44, is the Vice President of Acoustic Research and Development of the Company. Mr. Zhu assists our Chief Executive Officer and Chief Operating Officer in the overall coordination of projects, operation and management of our Group. He is also a general manager of Changzhou Weililai Electronic Acoustic Device Co., Ltd.. Prior to joining our Group, he was a deputy general manager at Shenzhen Yuanyu Industrial Development Co., Ltd. from 1992 to 1994. Mr. Zhu obtained a Diploma in Electrical Engineering from the Institute of Changzhou Industry Technology (常州工業技術學院) in the PRC in 1984. Mr. Zhu joined the Group in September 1994.

Mr. Jianlin Di (狄建林) ("Mr. Di"), aged 36, is the Vice President of Research and Development, Non-Acoustic Products of the Company. Mr. Di is in charge of our manufacture engineering operation. Mr. Di has over 15 years' experience in tooling and manufacture engineering. He was the General Manager of Changzhou Kaitai Machinery and Electronics Co., Ltd. from August 1998 to September 2001. Since September 2001, Mr. Di has been the General Manager of Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.. Mr. Di studied tooling design and manufacturing at Jiangsu Changzhou Institute of Radio Industry (常州無線電工業學院) in the PRC.

Mr. Edward Y. Liu (廖勇濤) ("Mr. Liu"), aged 45, is the Vice President of Acoustic Operation of the Company. Mr. Liu is experienced in the electronics sales and marketing industry. Mr. Liu has held senior sales and marketing positions at various electronics companies in the PRC and the USA, such as Solectron Corporation and Flextronics International. Mr. Liu obtained higher diploma in Electronics Engineering from the Hong Kong Polytechnic University in 1985. Mr. Liu joined the Group in May 2005.

Mr. Sherman Chi-Shun Yip (葉志順) ("Mr. Yip"), aged 53, is the Vice President of Sales & Marketing of the Company. Mr. Yip has extensive sales and marketing experience within the electronics industry. Mr. Yip has held senior sales and marketing positions at various electronics companies in the IT, Networking, Telecomm, Consumer & Business Electronics industries, such as Philips, Texas Instruments & Motorola Inc. Mr. Yip obtained a Bachelor of Math & Science (B.A.) and a Computer Science (B.C.Sc.) degree from the University of Windsor, Canada in 1981 & 1983. Mr. Yip joined the Company in December 2002.

Mr. Wang Jian (王劍) ("Mr. Wang"), aged 37, is Vice President of Quality of the Company. Mr. Wang has extensive quality management experience in electronics industry. Mr. Wang obtained bachelor degree in Precise Measurement Engineering from TianJin University in 1994. Mr. Wang joined Motorola (China) Electronics Ltd. in 1996 & held senior quality management and supplier development position for years. Mr. Wang joined the Company in 2007.

Mr. Erik Rudolphi ("Mr. Rudolphi"), aged 47, is Vice President of Sales and Account Management Europe Region. He has extensive experience from the audio industry. He has previously worked in different management positions in technical consultant companies with focus on acoustic technology where he has been in charge of the major mobile phone accounts, such as Sony Ericsson and Nokia. Mr. Rudolphi obtained a Master of Science degree in Engineering Physics from Uppsala University, Sweden in 1988. He joined the Company in January 2005.

Mr. Jeff King ("Mr. King"), age 48, is Vice President of Account Management & Marketing Promotion, Pan American Region. Mr. King has extensive experience in the Communications and Electronics Industry. During 20 years of service with Motorola, he had many accomplishments including Designing and Developing more than 15 Successful New Products, Creating and Leading the Corporate Wide Material Cost Reduction Programs (1B+ USD), Establishing and Managing the Global Sourcing Engineering Team, Creating a Global Corporate Wide Materials Management Software System, and achieving 28 Issued Patents. His areas of Overall Career Focus include Mechanics, Electronics, Shock, Vibration, Optics, Acoustics, Software and also Sales and Marketing. He achieved a Degree in Mechanical Engineering in 1982 from North Carolina State University and has been with the Company since 2006.

Ms. Stephanie Lau ("Ms. Lau"), aged 31, is the Vice President in charge of investor relations at AAC. She also acts as the Secretary to the Board since November 2007. Ms. Lau has more than 7 years of investment banking and equity research experience, having worked for Morgan Stanley, Credit Suisse First Boston and HSBC before joining AAC. From 1999 to 2003, Ms. Lau worked for Morgan Stanley in New York and Hong Kong within the investment banking and equity research divisions. From 2003 to 2005, Ms. Lau was an Associate at Credit Suisse First Boston's Investment Banking Division. During this period, Ms. Lau was a core member of AAC's IPO execution team. Ms. Lau obtained a Bachelor of Science degree in Management Science from the Massachusetts Institute of Technology in 1999. She joined AAC in April 2007.

Ms. Zhuang Renyan (莊任艷) ("Ms. Zhuang"), aged 38, is the Finance Director of the Company. She is also in charge of corporate secretarial matters and ever worked as the Secretary to the Board. Ms. Zhuang has over 14 years' experience in finance. Prior to joining our Group as Chief Financial Controller in 2001, she was a senior manager at the Shenzhen Pan-China Schinda CPA Firm from January 1995 to August 2001. From June 1997 to May 1998, she underwent an exchange programme at Coopers & Lybrand in Hong Kong. Ms. Zhuang holds a Master's degree in Economics from Shanghai Maritime University (上海海事大學). Ms. Zhuang also obtained a CICPA Securities and Futures qualification in China (註冊會計師證券相關業務資格) and is a member of the China Institute of Certified Public Accountants (中國註冊會計師協會會員). Ms. Zhuang joined the Group in August 2001.

Mr. Richard Peng-Fei Chu (朱鵬飛) ("Mr. Chu"), aged 62, Mr. Chu joined the Group in April 2004 as the Chief Financial Officer and he resigned with effect from November 2007. Mr. Chu has over 20 years' experience in finance. Prior to joining our Group, he had been the finance director of Shanghai Viasystems Electronic Manufacturing Service Company Limited from 2002 to 2004. From 2000 to 2002, he was the chief financial officer of Aurora Company (China) the e-Millenium Two Fund and Shanghai New Margin Venture Capital. From 1997 to 1999, he was the regional controller and finance director for Yunan Ximeliu Aluminium Foil Co. Ltd in Kunming, the PRC. In March 1999, he joined Montgomery Ward (Hong Kong) Ltd. He was previously employed by Compaq Computer Corporation in Houston, Texas. From 1980 to 1985, he was the accounting supervisor of Big Three Industrial Gas in Houston, Texas,. Mr. Chu holds a Master's degree in Science from the University of Houston-Clear Lake in the USA.

Ms. Jin Ye (金叶) ("Ms. Jin"), aged 36, is the Human Resources ("HR") Director of the Company. Ms. Jin has many years' HR managerial experience in retail & manufacturing industry. Prior to joining our Group, she had been the HR Director of Shenzhen Maoye Department Store Co., Ltd from 2003 to 2005; from 2000 to 2003 she was Senior HR Manager of Wal-Mart Global Procurement Overseas Home Office; from 1998 to 2000 she was in charge of the HR & Administration Department of Raystar (Shenzhen) cosmetic factory. Ms. Jin, holds a Bachelor degree in International Trade from the Lanzhou Commercial University in China. Ms. Jin joined the Group in July 2006.

Mr. Cheung Yuk Chuen (張玉存) ("Mr. Cheung"), aged 34, has been appointed as qualified accountant and company secretary of the Company from 10th May, 2007. Mr. Cheung is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 10 years of experience in accounting, auditing and tax consultancy.

Mr. Wong Ho Kwan (黃浩鈞) ("Mr. Wong"), aged 32, joining the Group in June 2006, as the qualified accountant and company secretary of the Company and resigned with effect from 10th May, 2007. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Certified Internal Auditor of the Institute of Internal Auditors. Mr. Wong has over eight years of experience in accounting, auditing and financial control. Before joining the Group, he worked with KPMG, PricewaterhouseCoopers and Hutchison Whampoa Limited.

Directors' Report

The directors of the Company ("Directors") present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 28.

The Directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the share premium account and the contributed surplus less deficit which amounted to RMB1,200,321,000 (2006: RMB974,657,000). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS AND SERVICE CONTRACTS

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

Executive director:

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

Non-executive directors:

Ingrid Wu Chunyuan ("Ms. Wu")
Thomas Ng Kalon
Pei Kang (appointed on 15th February, 2007)
Yang Dong Shao (resigned on 15th February, 2007)

Independent non-executive directors:
Koh Boon Hwee *(Chairman)*
Dick Mei Chang
Mok Joe Kuen Richard

In accordance with Article 87 of the Company's Articles of Association, Dr. Thomas Ng Kalon, Mr. Koh Boon Hwee and Dr. Dick Mei Chang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Pan has entered into a service agreement with the Company for a term of three years from 15th July, 2005, subject to termination by either party giving no less than 60 days' prior notice in writing or 60 days' payment in lieu of notice.

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

Mr. Pei Kang has entered into a letter of appointment with the Company for a term of two years from 15th February, 2007, subject to termination by either party giving no less than one month's prior notice in writing or such shorter period as both parties may agree.

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

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

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

As at 31st December, 2007, the beneficial interests of the directors and chief executives in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of US$0.01 each of the Company:

Name of director/ chief executive	Personal interests	Joint Interests	Corporate interests	Spouse interests	Other interests	Total number of shares	Percentage of the Company's issued share capital
Mr. Pan [1]	158,520,634	12,261,852	51,439,440	278,918,102	77,746,504	578,886,532	46.76%
Ms. Wu [2]	209,828,594	12,261,852	–	279,049,582	77,746,504	578,886,532	46.76%
Mr. Koh Boon Hwee	1,307,562	–	–	–	–	1,307,562	0.11%
Mr. Kang Pei	–	12,000	–	–	–	12,000	0.001%
Mr. Li Xiang	35,055,887	–	–	–	–	35,055,887	2.83%

Notes:

(1) Mr. Pan beneficially owns 158,520,634 shares. Mr. Pan is also deemed or taken to be interested in the following shares:

- (i) 12,261,852 shares which are jointly owned by Mr. Pan and Ms. Wu;
- (ii) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan;
- (iii) 209,828,594 shares which are beneficially owned by Ms. Wu as Mr. Pan is Ms. Wu's husband;
- (iv) 69,089,508 shares which are deemed to be beneficially owned by Ms. Wu, as trustee of the Ingrid Chunyuan Wu 2005 Annuity Trust dated 18th June, 2005 as Mr. Pan is Ms. Wu's husband;
- (v) 69,089,508 shares which are deemed to be beneficially owned by Mr. Pan, as trustee of the Benjamin Zhengmin Pan 2005 Annuity Trust dated 18th June, 2005; and
- (vi) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(2) Ms. Wu beneficially owns 209,828,594 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 12,261,852 shares which are jointly owned by Mr. Pan and Ms. Wu;

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

(iii) 158,520,634 shares which are beneficially owned by Mr. Pan as Ms. Wu is Mr. Pan's wife;

(iv) 69,089,508 shares which are deemed to be beneficially owned by Mr. Pan, as trustee of the Benjamin Zhengmin Pan 2005 Annuity Trust dated 18th June, 2005 as Ms. Wu is Mr. Pan's wife;

(v) 69,089,508 shares which are deemed to be beneficially owned by Ms. Wu, as trustee of the Ingrid Chunyuan Wu 2005 Annuity Trust dated 18th June, 2005; and

(vi) 8,656,996 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

Other than as disclosed above, as at 31st December, 2007, none of the directors, chief executives nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEME

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

On 25th September, 2001, the Group entered into a lease agreement with Ms. Wu and Mr. Pan under which Ms. Wu and Mr. Pan jointly agreed to lease out a property located in the United States of America as part of the place of business to a wholly-owned subsidiary of the Company. On 14th April, 2005, the term of the lease agreement was extended to 31st December, 2007. The parties to the lease agreements also agreed to adjust the rent payable each year by no more than 5% (either upwards or downwards) from the preceding year to reflect the then prevailing market conditions. There has been no adjustment in the rent payable in the year of 2007. Total rental expense incurred during the year, in respect of the lease agreement amounted to RMB629,000.

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, other than the directors and chief executives of the Company, the register of interests and short positions kept by the Company under section 336 of the SFO showed that the following persons held interests or short positions in the Company's shares:

Name of shareholder	Number of Shares	Percentage of the Company's issued share capital
J.P. Morgan Chase & Co. (1)	222,691,012(L)	17.99%
	644,000(S)	0.05%
	75,211,000(P)	6.08%
Schroder Investment Management (Hong Kong) Limited	74,920,000(L)	6.05%
Prudential Plc (2)	87,256,000(L)	7.05%
Emerging Markets Management, L.L.C.	75,608,000(L)	6.11%
Credit Suisse Group (3)	93,600,000(L)	7.56%
	93,600,000(S)	7.56%

L – Long position
S – Short position
P – Lending Pool

Notes:

(1) J.P. Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 222,691,012 shares of the Company.

(i) 75,211,000 shares are directly held by JP Morgan Chase Bank, N.A., J.P. Morgan Chase & Co. is deemed to be interested in these 75,211,000 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.

(ii) 146,836,012 shares are directly held by J.P. Morgan Investment Management Inc., by virtue of JP Morgan Asset Management Holdings Inc.'s 100% interest in J.P. Morgan Investment Management Inc. and J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Asset Management Holdings Inc., JP Morgan Asset Management Holdings Inc. and J.P. Morgan Chase & Co. are deemed to be interested in these 146,836,012 shares;

(iii) 644,000 shares are directly held by J.P. Morgan Securities Ltd., by virtue of J.P. Morgan chase International Holdings Limited's 98.95% interest in J.P. Morgan Securities Ltd., J.P. Morgan Chase (UK) Holdings Limited's 97.58% interest in J.P. Morgan Chase International Holdings Limited, J.P. Morgan Capital Holdings Limited's 100% interest in J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan International Finance Limited's 100% interest in J.P. Morgan Capital Holdings Limited, Bank One International Holdings Corporation's 100% interest in J.P. Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, JP Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc. and J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., J.P. Morgan Chase International Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Chase Bank, N.A. and J.P. Morgan Chase & Co. are deemed to be interested in these 644,000 shares.

Comprising 75,211,000 shares in the lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

(2) By virtue of Prudential Plc's 100% interest in Prudential Holdings Ltd., Prudential Holdings Ltd.'s 100% interest in Prudential Corporation Holdings Ltd., Prudential Corporation Holdings Ltd.'s 100% interest in Prudential Asset Management (Hong Kong) Ltd., each of Prudential Plc, Prudential Holdings Ltd., Prudential Corporation Holdings Ltd. and Prudential Asset Management (Hong Kong) Ltd. is deemed to be interested in 87,256,000 shares in the Company directly held by Prudential Corporation Holdings Ltd.

(3) By virtue of Credit Suisse Group's 100% interest in Credit Suisse, Credit Suisse's 100% interest in Credit Suisse First Boston (International) Holdings AG, Credit Suisse First Boston (International) Holdings AG's 100% interest in Credit Suisse First Boston International (Guernsey) Limited and 70.2% interest in Credit Suisse First Boston (Hong Kong) Limited; and Credit Suisse First Boston International (Guernsey) Limited also owns 29.8% interest in Credit Suisse First Boston (Hong Kong) Limited, each of Credit Suisse Group, Credit Suisse and Credit Suisse First Boston (International) Holdings AG is deemed to be interested in 93,600,000 shares in the Company directly held by Credit Suisse First Boston (Hong Kong) Limited.

Save as the interests and short positions disclosed above, as at 31st December, 2007, so far as was known to any director of the Company, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who where interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased its own 10,000,000 shares through the Stock Exchange. The above shares were cancelled upon repurchase.

Save as disclosed above, none of the Company or Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

EMOLUMENT POLICY

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

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 56.4% (2006: 70.9%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 19.9% (2006: 32.2%) of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 31.4% (2006: 37.0%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 15.2% (2006: 15.3%) of the Group's total purchases.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the years, no directors of the Company or their respective associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other that those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float during the year ended 31st December, 2007.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 33 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Koh Boon Hwee
Chairman

7th April, 2008

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with the code provision of the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by the directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules and the directors have fully complied with it.

On specific enquiries made, all the directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the directors' securities transactions for 2007.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

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

BOARD OF DIRECTORS

The Board comprises of one executive director, three non-executive directors and three independent non-executive directors. The Board members and the term of appointment of the directors are set out in the "DIRECTORS AND SERVICE CONTRACTS" section of "Directors' Report" on pages 14 to 15 of this report. In accordance with the Company's articles of association, all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years, which complies with the code provision A.4.2 of the CG Code.

The directors' biographical information is set out in the "Biographies of Directors and Senior Management" section on pages 9 to 10 of this report.

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

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

Independent non-executive directors
The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Frequency of Meetings and Attendance
Board meetings are held at least 4 times a year and the Board meets as and when required. During the financial year ended 31st December, 2007, the Board convened a total of 5 meetings and the attendances of the directors at these board meetings are as follows:

Directors	**Number of attendance**
Executive director	
Mr. Benjamin Zhengmin Pan	5/5
Non-executive directors:	
Ms. Ingrid Chunyuan Wu	5/5
Pei Kang (appointed with effect from 15th February, 2007)	5/5
Dr. Thomas Kalon Ng	5/5
Independent non-executive directors:	
Mr. Koh Boon Hwee	5/5
Dr. Dick Mei Chang	5/5
Mr. Mok Joe Kuen Richard	5/5

The directors received details of agenda items for decision and minutes of board meetings in advance of each board meeting.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

AUDIT COMMITTEE

The Audit Committee was established in April 2005 and is chaired by Mr. Mok Joe Kuen Richard, an independent non-executive director, with two other members, Mr. Koh Boon Hwee, an independent non-executive director and Ms. Ingrid Chunyuan Wu, a non-executive director. The primary responsibilities of the Audit Committee are to review and supervise the financial reporting process and the effective internal control system of the Group. The Audit Committee reviewed the quarterly financial results, as well as the interim report of the Company in the year of 2007.

Frequency of Meetings and Attendance

The Audit Committee convened 4 times for the year ended 31st December, 2007 under review and details of the attendance of its meetings are as follows:

Directors	Number of attendance
Mr. Mok Joe Kuen Richard	4/4
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	4/4

NOMINATION COMMITTEE

The Nomination Committee was established in April 2005 and is chaired by Dr. Dick Mei Chang, an independent non-executive director, with two other members, Mr. Mok Joe Kuen Richard, an independent non-executive director and Mr. Pei Kang, a non-executive director. (Mr. Yang Dong Shao resigned and was replaced by Mr. Pei Kang with effect from 15th February 2007).

The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the appointment and re-appointment of directors, and ensuring the proper and transparent procedures for the appointment and reappointment of directors.

The Nomination Committee met once in 2007 with full attendance of its members to review the structure, size and composition of the Board, assess the independence of independent non-executive directors.

REMUNERATION COMMITTEE

The Remuneration Committee was formed in April 2005 and is chaired by Mr. Koh Boon Hwee, an independent non-executive director, with two other members, Dr. Dick Mei Chang, an independent non-executive director and Dr. Thomas Kalon Ng, a non-executive director.

The responsibilities of the Remuneration Committee include advising the Board in relation to the remuneration structure and compensation of the Company's executive directors and executives, as well as representing the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts.

The Remuneration Committee met once in 2007 with full attendance of its members to review the remuneration package of the Board and the senior management.

Emolument policy

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

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

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

AUDITORS' REMUNERATION

Type of Services	2007 HK$'000
Audit services	2,000
Non-audit services	
Interim review	600
Others	555
Total:	3,155

Deloitte.
德勤

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

We have audited the consolidated financial statements of AAC Acoustic Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 71 which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7th April, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	NOTES	**2007 RMB'000**	2006 RMB'000
Turnover		**1,952,212**	1,773,371
Cost of goods sold		**(1,028,751)**	(902,121)
Gross profit		**923,461**	871,250
Other income		**26,089**	45,464
Fair value gain on foreign exchange linked notes		**6,344**	860
Distribution and selling expenses		**(117,314)**	(113,413)
Administrative expenses		**(148,355)**	(154,719)
Research and development costs		**(85,662)**	(48,783)
Finance costs	*7*	**(6,585)**	(627)
Profit before taxation	*8*	**597,978**	600,032
Taxation	*10*	**(49,936)**	(31,515)
Profit for the year		**548,042**	568,517
Attributable to:			
Equity holders of the Company		**551,133**	570,314
Minority interests		**(3,091)**	(1,797)
		548,042	568,517
Earnings per share — Basic	*11*	**RMB44.37 cents**	RMB45.70 cents

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**833,811**	618,842
Goodwill	*13*	**3,655**	—
Prepaid lease payments	*14*	**36,026**	7,921
Foreign exchange linked notes	*15*	**85,632**	79,288
Deposits made on acquisition of property, plant and equipment		**123,118**	55,712
Prepaid licence rights		**—**	12,145
Intangible assets	*16*	**31,732**	—
		1,113,974	773,908
Current assets			
Inventories	*17*	**271,029**	188,470
Trade and other receivables	*18*	**762,226**	553,926
Amount due from a minority shareholder of a subsidiary	*19*	**11,503**	7,807
Taxation recoverable		**2,200**	2,168
Pledged bank deposits	*20*	**26,278**	26,952
Bank balances and cash	*20*	**1,024,538**	988,992
		2,097,774	1,768,315
Current liabilities			
Trade and other payables	*21*	**414,921**	374,010
Amounts due to related companies	*22*	**2,195**	11,165
Taxation payable		**24,327**	22,000
Short-term bank loans	*23*	**182,330**	10,000
		623,773	417,175
Net current assets		**1,474,001**	1,351,140
Net assets		**2,587,975**	2,125,048

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	24	**100,530**	101,342
Reserves		**2,476,806**	2,009,793
Equity attributable to equity holders of the Company		**2,577,336**	2,111,135
Minority interests		**10,639**	13,913
Total equity		**2,587,975**	2,125,048

The consolidated financial statements on pages 28 to 71 were approved and authorised for issue by the Board of Directors on 7th April, 2008 and are signed on its behalf by:

Benjamin Zhengmin Pan
DIRECTOR

Mok Joe Kuen Richard
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2006	101,342	885,259	(7,469)	(97)	87,245	31,959	440,204	1,538,443	–	1,538,443
Exchange differences arising from translation of financial statements of foreign operations, representing net income recognised in equity	–	–	–	2,378	–	–	–	2,378	(338)	2,040
Profit for the year	–	–	–	–	–	–	570,314	570,314	(1,797)	568,517
Total recognised income and expense for the year	–	–	–	2,378	–	–	570,314	572,692	(2,135)	570,557
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	16,048	16,048
Transfers	–	–	–	–	–	17,399	(17,399)	–	–	–
At 31st December, 2006	101,342	885,259	(7,469)	2,281	87,245	49,358	993,119	2,111,135	13,913	2,125,048
Exchange differences arising from translation of financial statements of foreign operations, representing net income recognised in equity	–	–	–	(10,577)	–	–	–	(10,577)	(482)	(11,059)
Profit for the year	–	–	–	–	–	–	551,133	551,133	(3,091)	548,042
Total recognised income and expense for the year	–	–	–	(10,577)	–	–	551,133	540,556	(3,573)	536,983
Shares repurchased and cancelled	(812)	(73,543)	–	–	–	–	–	(74,355)	–	(74,355)
Acquisition of a non-wholly owned subsidiary	–	–	–	–	–	–	–	–	27	27
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	272	272
Transfers	–	–	–	–	–	54,854	(54,854)	–	–	–
At 31st December, 2007	100,530	811,716	(7,469)	(8,296)	87,245	104,212	1,489,398	2,577,336	10,639	2,587,975

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

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

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

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	NOTE	**2007 RMB'000**	2006 RMB'000
Operating activities			
Profit before taxation		**597,978**	600,032
Adjustments for:			
Interest income		**(19,601)**	(28,448)
Interest expense		**6,585**	627
Depreciation		**77,144**	48,179
Amortisation of development expenditure		**4,643**	—
Fair value gain on foreign exchange linked notes		**(6,344)**	(860)
Operating lease rentals in respect of land use rights		**768**	594
Impairment loss on property, plant and equipment		**—**	413
Loss on disposal of property, plant and equipment		**937**	540
Allowance for bad and doubtful debts		**835**	3,726
Release of prepaid licence rights		**3,370**	3,470
Operating cash flows before movements in working capital		**666,315**	628,273
Increase in prepaid licence rights		**—**	(15,615)
Increase in inventories		**(81,694)**	(72,233)
Increase in trade and other receivables		**(206,255)**	(203,334)
Increase in trade and other payables		**43,512**	152,612
Cash from operations		**421,878**	489,703
Taxation paid		**(47,641)**	(28,038)
Net cash from operating activities		**374,237**	461,665

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	NOTE	2007 RMB'000	2006 RMB'000
Investing activities			
Interest received		**19,601**	28,448
Acquisition of a business	*26*	**(7,597)**	—
Proceeds from disposal of property, plant and equipment		**457**	1,016
Repayment from related companies		**—**	81
Purchase of property, plant and equipment		**(235,296)**	(307,394)
Additions to intangible assets		**(36,375)**	—
Purchase of foreign exchange linked notes		**—**	(78,428)
Deposits paid on acquisition of property, plant and equipment		**(123,118)**	(55,712)
Decrease (increase) in pledged bank deposits		**674**	(8,147)
Advances from (made to) a minority shareholder of a subsidiary		**4,173**	(7,807)
Prepaid rentals on land use rights		**(28,873)**	(699)
Net cash used in investing activities		**(406,354)**	(428,642)
Financing activities			
Capital contribution from a minority shareholder of a subsidiary		**272**	16,048
Bank loans raised		**182,330**	10,000
(Repayment to) borrowings from related companies		**(8,970)**	9,229
Repayment of bank loans		**(10,000)**	(15,000)
Interest paid		**(6,594)**	(756)
Shares repurchased		**(74,355)**	—
Net cash from financing activities		**82,683**	19,521

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	NOTE	2007 RMB'000	2006 RMB'000
Net increase in cash and cash equivalents		**50,566**	52,544
Cash and cash equivalents at 1st January		**988,992**	938,970
Effect of foreign exchange rate changes		**(15,020)**	(2,522)
Cash and cash equivalents at 31st December		**1,024,538**	988,992
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**1,024,538**	988,992

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 introduction to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 34.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new IFRSs"), which are effective for the Group's financial year beginning 1st January, 2007.

IAS 1 (Amendment)	Capital disclosures
IFRS 7	Financial instruments: Disclosures
IFRIC 7	Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim financial reporting and impairment

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

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") (Continued)

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

IAS 1 (Revised)	Presentation of financial statements [1]
IAS 23 (Revised)	Borrowing costs [1]
IAS 27 (Revised)	Consolidated and separate financial statements [5]
IAS 32 & IAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
IFRS 2 (Amendment)	Vesting conditions and cancellations [1]
IFRS 3 (Revised)	Business combinations [5]
IFRS 8	Operating segments [1]
IFRIC 11	IFRS 2: Group and treasury share transactions [2]
IFRIC 12	Service concession arrangements [3]
IFRIC 13	Customer loyalty programmes [4]
IFRIC 14	IAS 10 — The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

1 Effective for annual periods beginning on or after 1st January, 2009.
2 Effective for annual periods beginning on or after 1st March, 2007.
3 Effective for annual periods beginning on or after 1st January, 2008.
4 Effective for annual periods beginning on or after 1st July, 2008.
5 Effective for annual periods beginning on or after 1st July, 2009.

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

Business combinations

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

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

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Revenue recognition

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

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

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

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

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

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

Prepaid lease payments

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

Borrowing costs

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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.

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Impairment (other than goodwill and financial assets)

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

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

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

Retirement benefit costs

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

4. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Designated as at fair value through profit or loss	**85,632**	79,288
Loans and receivables (including cash and cash equivalents)	**1,799,774**	1,562,753
Financial liabilities		
Amortised cost	**556,652**	354,483

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 the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner.

Market risk

Currency risk

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

4. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

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

	Assets		**Liabilities**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**657,124**	869,498	**467,625**	126,485
Japanese Yen	**55,013**	23,137	**5,117**	2,725
Others	**6,224**	3,010	**2,295**	2,118

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

Sensitivity analysis

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

	Impact	
	2007	2006
	RMB'000	RMB'000
Profit or loss		
US$	**(1,541)**	(29,283)
Japanese Yen	**(2,495)**	(1,021)

4. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 23) and bank balances and deposits (see note 20). The management considers the Group's exposure of the variable-rate bank loans and bank balances and deposits to interest rate risk is not significant as they have a short maturity period.

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

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of variable-rate bank loans and bank balances and deposits at the balance sheet date was the amount outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2007 would increase/decrease by RMB1,601,000 (2006: RMB3,847,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and deposits.

Credit risk

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

In order to minimise the credit risk in relation to trade 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 and foreign exchange linked notes is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated as 15.46% (2006: 32.32%) and 40.72% (2006: 60.45%) of the total trade receivables are due from the Group's largest customer and the five largest customers within the manufacture and sales of acoustic related products business segment. However, the management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

4. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

	On demand	**Less than 1 year**	**Total undiscounted cash flow**	**Carrying amount**
	RMB'000	RMB'000	RMB'000	RMB'000
At 31st December, 2007				
Financial liabilities				
Non-interest bearing	3,628	370,694	374,322	374,322
Variable interest rate*	—	186,862	186,862	182,330
	3,628	557,556	561,184	556,652
At 31st December, 2006				
Financial liabilities				
Non-interest bearing	15,138	329,345	344,483	344,483
Fixed interest rate*	—	10,252	10,252	10,000
	15,138	339,597	354,735	354,483

* The weighted average interest rate used to project future cash flows was 5.97% (2006: 5.03%). For variable interest rate instruments, the interest rates used were the interest rates at the balance sheet date.

Fair value

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

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

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 23, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

Over 90% of the Group's 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:

	2007 **RMB'000**	2006 RMB'000
Turnover		
— United States of America ("USA")	**545,237**	684,599
— Greater China	**953,297**	813,932
— Asia (excluding Greater China)	**101,779**	106,692
— Europe	**351,899**	168,148
	1,952,212	1,773,371

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

	2007 **RMB'000**	2006 RMB'000
Results:		
Segment results		
— USA	**143,591**	222,740
— Greater China	**270,807**	243,628
— Asia (excluding Greater China)	**21,196**	37,214
— Europe	**140,757**	55,812
	576,351	559,394
Other income	**6,488**	17,016
Interest income	**19,601**	28,448
Fair value gain on foreign exchange linked notes	**6,344**	860
Unallocated expenses	**(4,221)**	(5,059)
Finance costs	**(6,585)**	(627)
Profit before taxation	**597,978**	600,032
Taxation	**(49,936)**	(31,515)
Profit for the year	**548,042**	568,517

6. **BUSINESS AND GEOGRAPHICAL SEGMENTS** (Continued)

Geographical segments (Continued)

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

	2007 RMB'000	2006 RMB'000
Segment assets		
— USA	**557,532**	629,084
— Greater China	**1,039,997**	617,819
— Asia (excluding Greater China)	**91,167**	82,665
— Europe	**384,404**	115,255
	2,073,100	1,444,823
Unallocated	**1,138,648**	1,097,400
	3,211,748	2,542,223
Segment liabilities		
— USA	**105,935**	132,030
— Greater China	**230,648**	204,383
— Asia (excluding Greater China)	**19,904**	19,571
— Europe	**60,629**	29,191
	417,116	385,175
Unallocated	**206,657**	32,000
	623,773	417,175

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information

	2007 **RMB'000**	2006 RMB'000
Capital additions		
— USA	**83,034**	108,716
— Greater China	**174,437**	177,516
— Asia (excluding Greater China)	**11,928**	16,458
— Europe	**64,243**	24,194
	333,642	326,884
Depreciation and amortisation		
— USA	**20,818**	14,743
— Greater China	**48,860**	27,515
— Asia (excluding Greater China)	**3,492**	2,264
— Europe	**8,617**	3,657
	81,787	48,179
Allowance for bad and doubtful debts		
— USA	**—**	5
— Greater China	**835**	3,551
— Europe	**—**	170
	835	3,726

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

7. FINANCE COSTS

	2007 **RMB'000**	2006 RMB'000
Interest on bank borrowings wholly repayable within five years	**6,594**	756
Less: Interest capitalised in construction in progress	**(9)**	(129)
	6,585	627

8. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments *(note 9)*	**2,277**	3,219
Other staff's retirement benefits scheme contributions	**26,150**	17,460
Other staff costs	**437,990**	336,243
Total staff costs	**466,417**	356,922
Less: Staff costs included in research and development costs	**(37,310)**	(29,542)
	429,107	327,380
Depreciation	**77,144**	48,179
Less: Depreciation included in research and development costs	**(10,048)**	(3,802)
	67,096	44,377
Amortisation of development expenditure, included in cost of sold goods	**4,643**	—
Allowance for bad and doubtful debts	**835**	3,726
Cost of inventories recognised as expense	**1,028,751**	902,121
Auditors' remuneration	**1,944**	1,840
Impairment loss on property, plant and equipment	**—**	413
Loss on disposal of property, plant and equipment	**937**	540
Net exchange loss	**28,667**	41,790
Operating lease rentals in respect of		
— building premises	**18,484**	13,846
— land use rights	**768**	594
and after crediting:		
Government subsidies *	**1,932**	11,999
Fair value gain on foreign exchange linked notes	**6,344**	860
Interest income from bank balances and deposits	**19,601**	28,448

* 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.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Benjamin Pan Zhengmin RMB'000	Ingrid Wu Chunyuan RMB'000	Yang Dong Shao RMB'000	Pei Kang RMB'000	Thomas Ng Kalon RMB'000	Koh Boon Hwee RMB'000	Dick Chang Mei RMB'000	Richard Mok Joe Kuen RMB'000	Total RMB'000
31st December, 2007									
Fees	–	107	–	92	–	160	122	141	622
Salaries and other benefits	1,655	–	–	–	–	–	–	–	1,655
Total directors' emoluments	1,655	107	–	92	–	160	122	141	2,277
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

Note: Bonus was determined based on performance of directors.

Employees' emoluments

The five highest paid individuals does not include any directors (2006: one). The emoluments of the five (2006: four) highest paid individuals are as follows:

	2007 RMB'000	2006 RMB'000
Employees		
— basic salaries and allowances	**4,261**	4,543
— bonus	**14,901**	14,556
— retirement benefits scheme contributions	**50**	—
	19,212	19,099

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments (Continued)

The emoluments were within the following bands:

	Number of employees	
	2007	2006
RMB2,500,001 to RMB3,000,000	**3**	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
RMB7,500,001 to RMB8,000,000	**1**	—

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as compensation for loss of office. During the year, one director waived emoluments of RMB92,000 (2006: RMB97,000).

10. TAXATION

	2007	2006
	RMB'000	RMB'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	**2**	148
PRC income tax	**51,129**	31,659
Overseas taxation	**86**	3
Overprovision of taxation in prior years	**(1,281)**	(295)
	49,936	31,515

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years ("Tax Holiday"). The Tax Holiday will expire gradually up to 2011.

10. TAXATION (Continued)

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

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.

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

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**597,978**	600,032
Tax at the applicable income tax rate	**143,515**	144,008
Tax effect of income not taxable for tax purposes	**(3,256)**	(5,386)
Tax effect of expenses not deductible for tax purposes	**15,633**	8,299
Tax effect of Tax Holiday	**(95,528)**	(110,861)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,267)**	(3,804)
Overprovision in prior years	**(1,281)**	(295)
Others	**120**	(446)
Tax charge for the year	**49,936**	31,515

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.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2007 is based on the profit for the year attributable to equity holders of the Company of RMB551,133,000 (2006: RMB570,314,000) and on the weighted average number of ordinary shares of 1,241,992,668 shares in issue during the year (2006: 1,248,000,000 shares).

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, 2006	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
Currency realignment	–	(308)	(18)	–	30	–	(296)
Additions	3,607	37,802	13,829	5,151	113,190	117,438	291,017
Acquisition of subsidiary	–	–	–	–	2,595	–	2,595
Disposals	(328)	(814)	–	(917)	(1,176)	–	(3,235)
Transfers	47,969	5,885	–	–	36,816	(90,670)	–
At 31st December, 2007	108,451	163,163	16,702	16,400	617,357	115,987	1,038,060
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2006	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
Currency realignment	–	(165)	(15)	–	(11)	–	(191)
Provided for the year	3,473	21,901	1,641	2,108	48,021	–	77,144
Eliminated on disposals	(6)	(714)	–	(739)	(382)	–	(1,841)
At 31st December, 2007	9,551	58,712	2,972	5,578	127,436	–	204,249
CARRYING VALUES							
At 31st December, 2007	98,900	104,451	13,730	10,822	489,921	115,987	833,811
At 31st December, 2006	51,119	82,908	1,545	7,957	386,094	89,219	618,842

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

Bank interest of RMB9,000 (2006: RMB129,000) was capitalised under construction in progress.

13. GOODWILL

	RMB'000
Arising on acquisition of a subsidiary and balance at 31st December, 2007	3,655

The goodwill acquired in a business combination was allocated to the cash generating unit ("CGU") representing an operating unit within the others business segment.

The recoverable amount of the CGU is determined from value in use calculations. These calculations use cash flow projections based on latest financial budgets approved by management. No impairment loss was considered necessary.

14. PREPAID LEASE PAYMENTS

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

15. FOREIGN EXCHANGE LINKED NOTES

	2007 **RMB'000**	2006 RMB'000
US$5 million principal protected linked note	**43,754**	40,188
US$5 million autocallable linked note	**41,878**	39,100
At 31st December	**85,632**	79,288

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

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

Upon initial recognition, the Note and Callable Note are designated as financial assets at fair value through profit or loss as the above notes contain one or more embedded derivatives which are not closely related to the economic characteristics and risks of the host contract (the loan component). As at 31st December, 2007 the fair value of the Note and Callable Note were determined based on the redemption prices using the exchange rates as reported by PBOC as at year end date, as quoted by the Investment Bank.

16. INTANGIBLE ASSETS

	Development expenditure RMB'000
Cost	
Additions and balance at 31st December, 2007	36,375
Amortisation	
Charge for the year and balance at 31st December, 2007	(4,643)
	31,732

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

17. INVENTORIES

	2007 **RMB'000**	2006 RMB'000
Raw materials	**133,970**	81,601
Work in progress	**37,237**	36,709
Finished goods	**99,822**	70,160
	271,029	188,470

18. TRADE AND OTHER RECEIVABLES

	2007 **RMB'000**	2006 RMB'000
Trade receivables	**668,757**	492,481
Bank acceptance bills	**25,800**	14,646
	694,557	507,127
Advanced payment to suppliers	**22,978**	12,725
Other receivables	**44,691**	34,074
	762,226	553,926

18. 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 and bank acceptance bills at the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Age		
Not yet due	**568,156**	439,498
Overdue 0–90 days	**126,401**	62,816
Overdue 91–180 days	**–**	3,890
Overdue over 181 days	**–**	923
	694,557	507,127

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB126,401,000 (2006: RMB 67,629,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group based on historical experience considers the amounts which have past due and which impairment loss has not been provided to be of good credit quality and are generally recoverable. The Group does not hold any collateral over these balances.

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

	2007	2006
	RMB'000	RMB'000
Overdue 0–90 days	**126,401**	62,816
Overdue 91–180 days	**–**	3,890
Overdue over 180 days	**–**	923
Total	**126,401**	67,629

18. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**4,956**	1,230
Currency realignment	**(89)**	—
Impairment losses recognised on receivables	**835**	3,726
Amounts written off	**(17)**	—
Balance at end of the year	**5,685**	4,956

Impairment losses was recognised based on the Group's historical experience, aging analysis and internal assessment of the recoverability of the debt.

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

	2007	2006
	RMB'000	RMB'000
US$	**397,242**	368,761
Others	**6,537**	5,843

19. 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.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits and bank balances carry interest variable and fixed rates ranging from 0% to 5.29% (2006: 0% to 5.31%). The pledged bank deposits are pledged to banks to secure letters of credit and the notes payables, as set out in note 21.

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

	2007	2006
	RMB'000	RMB'000
US$	**158,412**	372,546
HK$	**2,252**	2,665
Japanese Yen	**54,298**	22,132
Others	**7,304**	7,605

21. TRADE AND OTHER PAYABLES

	2007 **RMB'000**	2006 RMB'000
Trade payables	**194,112**	186,924
Notes payables — secured	**44,202**	52,509
	238,314	239,433
Payroll and welfare payables	**79,542**	59,706
Other payables	**97,065**	74,871
	414,921	374,010

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

	2007 **RMB'000**	2006 RMB'000
Age		
Not yet due	**234,686**	224,295
Overdue 0–90 days	**1,872**	13,660
Overdue 91–180 days	**180**	47
Overdue over 181 days	**1,576**	1,431
	238,314	239,433

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

	2007 **RMB'000**	2006 RMB'000
US$	**1,783**	14,024
HK$	**834**	606
Japanese Yen	**5,117**	1,242

22. 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.

23. SHORT-TERM BANK LOANS

The short-term bank loans denominated in US$, at 31st December, 2007, are unsecured and carry interest at 1.25% per annum over London Inter-bank Offered Rate (as at 31st December 2006: fixed rate of 5.03% per annum).

24. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares	4,975,000,000	49,750
Series A preferred shares	15,000,000	150
Series B preferred shares	10,000,000	100
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2006 and 31st December, 2006	1,248,000,000	12,480
Shares repurchased and cancelled	(10,000,000)	(100)
Ordinary shares at 31st December, 2007	1,238,000,000	12,380

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

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

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

24. SHARE CAPITAL (Continued)

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

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

25. SHARE OPTION SCHEME

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

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

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

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

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

26. ACQUISITION OF A BUSINESS

In July 2007, the Group acquired 76% of the issued share capital of AAC Wireless Technologies AB ("AAC Wireless") for a consideration of RMB7,710,000 from an independent third party. AAC Wireless is engaged in development and sales of antenna related products for wireless communication. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB 3,655,000. The net assets acquired in the transaction, and the goodwill arising, are as follows:

The net assets acquired and the goodwill arising at date of acquisition are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	2,595
Inventories	1,200
Trade and receivables	174
Bank balances and cash	113
	4,082
Minority interests	(27)
Goodwill	3,655
Total consideration satisfied by:	
Cash	7,710
Net cash outflow arising on acquisition:	
Cash consideration paid	(7,710)
Bank balances and cash acquired	113
	(7,597)

The carrying values of the net assets of AAC Wireless before the combination approximate its fair values, accordingly no fair value adjustments were made.

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

These newly acquired subsidiary contributed a profit of RMB212,000 for the period between the date of acquisition and the balance sheet date.

26. ACQUISITION OF A SUBSIDIARY (Continued)

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

27. OPERATING LEASE COMMITMENTS

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

	2007	2006
	RMB'000	RMB'000
Within one year	**16,464**	12,343
In the second to fifth year inclusive	**9,456**	16,819
	25,920	29,162

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

28. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**82,471**	80,771

29. CONTINGENT LIABILITY

In 2006, a subsidiary was 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 sought injunctive relief and damages for an unspecified amount. The Group believed that it has meritorious defenses to the Complaint and thus no provision for any potential liability was made.

During the year, the Compliant has been resolved and the Group has entered into a world-wide cross-licence agreement with the plaintiff.

30. 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.

31. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	2007 RMB'000	2006 RMB'000
Minority shareholder of a subsidiary	Long-term prepayments made	–	15,615
	Purchase of property, plant and equipment	–	3,535
	Purchase of raw materials	321	—
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	7,233	9,422
	Property rentals paid	6,278	6,216
	Purchase of property, plant and equipment	2,665	—
Close family members of the directors of the Company	Property rentals paid	2,060	2,059
Substantial shareholders	Property rentals paid	629	646

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

Balances with related parties are disclosed in notes 19 and 22 to the consolidated financial statements.

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group cancelled the license agreement entered into by the Group in 2006. The carrying amount of licence fee prepaid of RMB7,869,000 will be refunded to the Group and is included in amounts due from a minority shareholder of a subsidiary.

33. POST BALANCE SHEET EVENT

In January 2008, the Group has completed its acquisition of the entire paid-in capital of 深圳市美歐電子有限責任公司 (Shenzhen Meiou Electronics Co., Ltd.) ("Shenzhen Meiou"), a company which close family members of certain directors has beneficial interest in, for a total consideration of RMB120,000,000. Shenzhen Meiou was not engaged in any business activities as at date of acquisition.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2006 and 31st December, 2007, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. *(note a)*	PRC	Registered capital — US$5,000,000	Manufacture and sales of acoustic products, research and development
AAC Acoustic Technologies Limited	Hong Kong	Ordinary shares — HK$10,000	Sales of acoustic related products
瑞聲開泰聲學科技(上海)有限公司 AAC Acoustic Technologies (Shanghai) Co., Ltd. *(note b)*	PRC	Registered capital — US$1,680,000	Manufacture and sales of headsets and electronic components, research and development
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd.* *(note c)*	PRC	Registered capital — US$23,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. *(note i)*	PRC	Registered capital — US$5,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. *(note h)*	PRC	Registered capital — US$50,000,000	Manufacture and sales of digital cameras and its accessories, electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. *(note d)*	PRC	Registered capital — US$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	Registered capital — US$1,680,000	Manufacture and sales of tooling and precision components for acoustic products
常州泰瑞美電鍍科技有限公司 Changzhou Tairumei Electroplating Technology Co., Ltd. *(note f)*	PRC	Registered capital — RMB1,000,000	Provision of electroplating service

34. PRINCIPAL SUBSIDIARIES (Continued)

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

* Directly held by the Company.

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 20 years commencing 11th April, 2005.
(g) Wholly-owned foreign enterprise for a term of 10 years commencing 7th April, 2000.
(h) Wholly-owned foreign enterprise for a term of 50 years commencing 13th April, 2006.
(i) Wholly-owned foreign enterprise for a term of 20 years commencing 8th November, 2006.

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

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

Financial Summary

	Year ended 31st December,				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	422,025	626,847	1,073,744	1,773,371	**1,952,212**
Profit before taxation	170,427	227,827	353,592	600,032	**597,978**
Taxation	(21,321)	(29,484)	(20,271)	(31,515)	**(49,936)**
Profit for the year	149,106	198,343	333,321	568,517	**548,042**
Attributable to:					
Equity holders of the Company	138,481	197,653	332,859	570,314	**551,133**
Minority interests	10,625	690	462	(1,797)	**(3,091)**
	149,106	198,343	333,321	568,517	**548,042**

	As at 31st December,				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	523,908	825,309	1,791,921	2,542,223	**3,211,748**
Total liabilities	(218,945)	(565,514)	(253,478)	(417,175)	**(623,773)**
Net assets	304,963	259,795	1,538,443	2,125,048	**2,587,975**
Attributable to:					
Equity holders of the Company	272,336	256,794	1,538,443	2,111,135	**2,577,336**
Minority interests	32,627	3,001	—	13,913	**10,639**
	304,963	259,795	1,538,443	2,125,048	**2,587,975**

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