

2008
Interim Report



AAC Acoustic Technologies Holdings Inc.

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



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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

Condensed Consolidated Income Statement

For the six months ended 30th June, 2008

The board (the “**Board**”) of directors (the “**Director(s)**”) of AAC Acoustic Technologies Holdings Inc. (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30th June, 2008 together with the unaudited comparative figures for the corresponding period in 2007. These interim financial statements have not been audited, but have been reviewed by the auditors, Deloitte Touche Tohmatsu, and the Company’s audit committee (the “**Audit Committee**”).

	NOTES	1.1.2008 to 30.6.2008 (Unaudited) RMB'000	1.1.2007 to 30.6.2007 (Unaudited) RMB'000
Turnover	3	1,164,739	801,805
Cost of goods sold		(666,003)	(428,791)
Gross profit		498,736	373,014
Other income		25,959	13,677
Fair value gain on foreign exchange linked notes		1,335	2,543
Distribution and selling expenses		(52,509)	(54,030)
Administrative expenses		(66,795)	(82,889)
Research and development costs		(50,167)	(34,686)
Finance costs		(5,983)	(301)
Profit before taxation	4	350,576	217,328
Taxation	5	(16,579)	(27,052)
Profit for the period		333,997	190,276
Attributable to:			
Equity holders of the Company		333,368	192,614
Minority interests		629	(2,338)
		333,997	190,276
Earnings per share — Basic	6	RMB27.07 cents	RMB15.46 cents

Condensed Consolidated Balance Sheet

At 30th June, 2008

	NOTES	30.6.2008 (Unaudited) RMB'000	31.12.2007 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	7	1,180,591	833,811
Goodwill		3,655	3,655
Prepaid lease payments		65,950	36,026
Foreign exchange linked notes		86,967	85,632
Deposits made on acquisition of property, plant and equipment		63,951	123,118
Intangible assets		33,549	31,732
		1,434,663	1,113,974
Current assets			
Inventories		304,615	271,029
Trade and other receivables	8	719,008	762,226
Amounts due from related companies		17,962	—
Amount due from a minority shareholder of a subsidiary		10,544	11,503
Taxation recoverable		2,181	2,200
Restricted bank deposits		9,524	26,278
Bank balances, deposits and cash		1,046,933	1,024,538
		2,110,767	2,097,774
Current liabilities			
Trade and other payables	9	411,895	414,921
Amounts due to related companies		22,414	2,195
Taxation payable		17,185	24,327
Short-term bank loans	10	229,513	182,330
		681,007	623,773
Net current assets		1,429,760	1,474,001
Net assets		2,864,423	2,587,975
Capital and reserves			
Share capital	11	99,718	100,530
Reserves		2,753,810	2,476,806
Equity attributable to equity holders of the Company		2,853,528	2,577,336
Minority interests		10,895	10,639
Total equity		2,864,423	2,587,975

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2008

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2008 (audited)	100,530	811,716	(7,469)	—	(8,296)	87,245	104,212	1,489,398	2,577,336	10,639	2,587,975
Exchange differences arising from translation	—	—	—	—	(14,996)	—	—	—	(14,996)	(373)	(15,369)
Profit for the period	—	—	—	—	—	—	—	333,368	333,368	629	333,997
Total recognised (expense) income for the period	—	—	—	—	(14,996)	—	—	333,368	318,372	256	318,628
Shares repurchased and cancelled	(812)	(64,759)	—	—	—	—	—	—	(65,571)	—	(65,571)
Deemed capital contribution from a shareholder arising from acquisition of a subsidiary (note 12)	—	—	—	23,391	—	—	—	—	23,391	—	23,391
Transfers	—	—	—	—	—	—	11,795	(11,795)	—	—	—
At 30th June, 2008 (unaudited)	99,718	746,957	(7,469)	23,391	(23,292)	87,245	116,007	1,810,971	2,853,528	10,895	2,864,423
At 1st January, 2007 (audited)	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	—	—	—	—	(1,034)	—	—	—	(1,034)	(213)	(1,247)
Profit for the period	—	—	—	—	—	—	—	192,614	192,614	(2,338)	190,276
Total recognised (expense) income for the period	—	—	—	—	(1,034)	—	—	192,614	191,580	(2,551)	189,029
Shares repurchased and cancelled	(812)	(73,543)	—	—	—	—	—	—	(74,355)	—	(74,355)
Transfers	—	—	—	—	—	—	38,398	(38,398)	—	—	—
At 30th June, 2007 (unaudited)	100,530	811,716	(7,469)	—	1,247	87,245	87,756	1,147,335	2,228,360	11,362	2,239,722

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

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's reorganisation in preparation for the listing of the Company's shares.

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

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

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2008

	NOTE	1.1.2008 to 30.6.2008 (Unaudited) RMB'000	1.1.2007 to 30.6.2007 (Unaudited) RMB'000
Net cash from operating activities		380,773	190,799
Net cash used in investing activities			
Prepaid lease payments made		(7,745)	(28,779)
Deposit paid on acquisition of property, plant and equipment		(63,951)	(55,787)
Purchase of property, plant and equipment		(187,024)	(90,370)
Additions to intangible assets		(5,908)	(29,417)
Acquisition of a subsidiary, net cash outflow	12	(97,558)	—
Other investing cash flows		15,418	9,458
		(346,768)	(194,895)
Net cash (used in) from financing activities			
Shares repurchased		(65,571)	(74,355)
Short-term loans raised		256,249	190,353
Short-term loans repaid		(197,961)	(10,000)
Other financing cash flows		(4,524)	(2,466)
		(11,807)	103,532
Net increase in cash and cash equivalents		22,198	99,436
Cash and cash equivalents at 1st January		1,024,538	988,992
Effect of foreign exchange rate changes		197	(3,125)
Cash and cash equivalents at 30th June, represented by bank balances, deposits and cash		1,046,933	1,085,303

Notes to the Condensed Consolidated Financial Statements



For the six months ended 30th June, 2008

1. Basis of Preparation

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2007.

In the current period, the Group acquired certain assets and liabilities from a related party (see note 12). The accounting policy adopted is as follows:

Assets and liabilities acquired from shareholders

Assets and liabilities acquired from shareholders are recognised at their fair values at the acquisition date. Discount arising on acquisition of the assets and liabilities are recognised directly in equity in the period in which they arise.

In the current interim period, the Group has applied, for the first time, a number of new International Financial Reporting Standards (“IFRS”), amendments and interpretations (hereinafter collectively referred to as “new IFRSs”), which are effective for accounting periods beginning on 1st January, 2008. The adoption of these new IFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.



Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

2. Principal Accounting Policies (continued)

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRS ¹
IAS 1 (Revised)	Presentation of financial statements ²
IAS 23 (Revised)	Borrowing costs ²
IAS 27 (Revised)	Consolidated and separate financial statements ³
IAS 32 & IAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
IAS 39 (Amendment)	Eligible hedged items ³
IAS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ²
IFRS 2 (Amendment)	Vesting conditions and cancellations ²
IFRS 3 (Revised)	Business combinations ³
IFRS 8	Operating segments ²
IFRIC 13	Customer loyalty programmes ⁴
IFRIC 15	Agreements for construction of real estate ²
IFRIC 16	Hedges of a net investment in a foreign operation ⁵

¹ Effective for annual periods beginning on or after 1st January, 2009 except for the amendments to IFRS 5, effective for annual periods beginning on or after 1st July, 2009.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st July, 2009.

⁴ Effective for annual periods beginning on or after 1st July, 2008.

⁵ Effective for annual periods beginning on or after 1st October, 2008.

The adoption of IFRS 3 (Revised) may affect the accounting for business combinations 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 anticipate that the application of other new, revised or amended standards and interpretations will have no material impact on the results and the financial position of the Group.

3. Business and Geographical Segments

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

3. Business and Geographical Segments (continued)

Geographical segments

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

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Turnover		
United States of America	414,690	331,095
Greater China	210,158	333,521
Asia (excluding Greater China)	38,817	51,612
Europe	501,074	85,577
	1,164,739	801,805
Results		
United States of America	100,558	84,242
Greater China	16,734	87,710
Asia (excluding Greater China)	7,520	9,718
Europe	206,097	20,890
	330,909	202,560
Other income	11,156	3,899
Interest income	14,803	9,778
Fair value gain on foreign exchange linked notes	1,335	2,543
Unallocated expenses	(1,644)	(1,151)
Finance costs	(5,983)	(301)
Profit before taxation	350,576	217,328
Taxation	(16,579)	(27,052)
Profit for the period	333,997	190,276



Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

4. Profit Before Taxation

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Profit before taxation has been arrived at after charging:		
Allowance for doubtful debts	3,124	—
Amortisation of intangible assets	2,946	754
Depreciation	57,938	34,364
and after crediting:		
Gain on disposal of property, plant and equipment	79	—

5. Taxation

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
The charge comprises:		
Hong Kong Profits Tax	—	2
PRC Income Tax	16,573	27,044
Overseas taxation	6	6
	16,579	27,052

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

On 16th March, 2007, the PRC promulgated the Law of the PRC 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 Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1st January, 2008.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB368,000,000. No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is possible that such differences will not reverse in the foreseeable future.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

6. Earnings Per Share

The calculation of the basic earnings per share for the six months ended 30th June, 2008 is based on the profit for the period attributable to equity holders of the Company of RMB333,368,000 (for the six months ended 30th June, 2007: RMB192,614,000) and on the 1,231,441,000 (for the six months ended 30th June, 2007: 1,246,052,000) weighted average number of shares in issue during the period.

7. Additions to Property, Plant and Equipment

During the period, the Group made additions to property, plant and equipment of approximately RMB310 million (for the six months ended 30th June, 2007: RMB146 million) on acquisition of property, plant and equipment, including transfers from deposits of approximately RMB123 million (for the six months ended 30th June, 2007: RMB56 million).

8. Trade Receivables and Notes Receivables

Payment terms with customers are mainly on credit. Invoices are normally payable from 45 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of payment. The following is an aged analysis of trade receivables and notes receivables at the balance sheet date:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Age		
Not yet due	539,402	568,156
Overdue 0–90 days	97,780	126,401
Overdue 91–180 days	7,238	—
	644,420	694,557

9. Trade Payables and Notes Payables

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

	30.6.2008 RMB'000	31.12.2007 RMB'000
Age		
Not yet due	260,921	234,686
Overdue 0–90 days	4	1,872
Overdue 91–180 days	58	180
Overdue over 181 days	718	1,576
	261,701	238,314

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

10. Short-term Bank Loans

During the period, the Group raised new short-term bank loans of RMB256 million (for the six months ended 30th June, 2007: RMB190 million) and made repayments of RMB198 million (for the six months ended 30th June, 2007: RMB10 million). The short-term bank loans are unsecured and carry interest ranging from 0.8% to 1.25% per annum over London Inter-bank Offered Rate (as at 31st December, 2007: 1.25% per annum over London Inter-bank Offered Rate).

11. 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, 2008 and 30th June, 2008	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2008	1,238,000,000	12,380
Shares repurchased and cancelled	(10,000,000)	(100)
Ordinary shares at 30th June, 2008	1,228,000,000	12,280
		RMB'000
Shown in the balance sheet at 1st January, 2008		100,530
Share repurchased and cancelled		(812)
At 30th June, 2008		99,718

During the period, the Company repurchased 10,000,000 of its issued ordinary shares for a total consideration of RMB65,571,000. The ordinary shares repurchased were cancelled and have been debited to the share capital and share premium account.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

12. Acquisition of a Subsidiary

During the period, the Group acquired 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**”) from a company in which a close family member of a substantial shareholder has beneficial interest. Total consideration paid for the acquisition was RMB120,000,000 which was determined based on the net asset value of Shenzhen Meiou at the date of acquisition. At date of acquisition, Shenzhen Meiou was not engaged in any business activity and therefore the acquisition was accounted for as acquisition of assets.

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

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

	Book value RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Property, plant and equipment	82,678	12,519	95,197
Prepaid lease payments	8,244	14,528	22,772
Other receivables	40,008	—	40,008
Bank balances and cash	2,442	—	2,442
Other payables	(17,028)	—	(17,028)
	116,344	27,047	143,391
Discount on acquisition			(23,391)
			120,000
Net cash outflow arising on acquisition			
Cash consideration			120,000
Balance of consideration payable to a related company			(18,760)
Balance of consideration payable to a third party			(1,240)
Cash and cash equivalents acquired			(2,442)
Net outflow of cash and cash equivalents arising on acquisition			97,558

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30th June, 2008

13. Capital Commitments

	30.6.2008 RMB'000	31.12.2007 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	63,020	82,471

14. Related Party Transactions

Apart for the transactions disclosed elsewhere in this report, during the period the Group had the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	3,309	5,863
	Property rentals paid	3,547	3,148
Close family members of the directors of the Company	Property rentals paid	1,010	1,030
Substantial shareholders	Property rentals paid	294	319

During the period, the emoluments paid to the key management personnel of the Company, who represents the directors of the Company, was RMB2,517,000 (for the six months ended 30th June, 2007: RMB1,151,000).

Report on Review of Interim Financial Information



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

Introduction

We have reviewed the interim financial information set out on pages 3 to 14, which comprises the condensed consolidated balance sheet of AAC Acoustic Technologies Holdings Inc. (the "Company") as of 30th June, 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

8th September, 2008

Management Discussion and Analysis

Overview

As one of the world's leading manufacturers of miniature acoustic components, our Company designs, manufactures and distributes a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, transducers, miniature vibrators, speaker boxes with antenna, and headsets for the use in mobile handsets (including smart phones), game consoles, notebook computers and other consumer electronics devices such as MP3 players and MP4 players.

Market Review

During the first half of 2008, our revenue increased due to the ramp up of product platforms for several new key customers. Our market share within the mobile handset industry continued to increase as a result of our effort in expanding our production capacity, increasing the number of platforms/components available to our existing customers, as well as bringing in new global customers. We are encouraged with the progress we have made so far with the new customers. Further, we plan to expand our customer base to include customers from other consumer electronic industries such as game consoles, notebooks and MP3 and MP4 players have been progressing as well.

The growth in the demand for smart phone has been promising during the past six months. Our Company has been successful in delivering various components to smart phone customers. This market trend has caused an increase in demand and expectation for quality acoustic performances, including the use of noise-cancellation technology, which requires a more than 1:1 ratio for speakers and microphones per handset. We are expecting the smart phone business to become a significant portion of our total sales.

Our research and development department made significant progress during the first half of 2008. We have received additional patents and making our total to 60 patents. As of 30th June, 2008, we have filed another 111 patent applications which are pending for approval.

Financial Review

Our revenue for the six months ended 30th June, 2008 was RMB1,164.7 million, representing an increase of RMB362.9 million, or 45.3%, compared to the corresponding period of 2007. Overall gross margin was 42.8% for the six months ended 30th June, 2008, compared with 46.5% for the corresponding period of 2007. Net profit attributable to equity holders of the Company was RMB333.4 million for the six months ended 30th June, 2008 compared with RMB192.6 million for the corresponding period of 2007. Basic earnings per share was RMB27.07 cents, representing an increase of 75.1% from RMB15.46 cents for the corresponding period of 2007.

Gearing Ratio

The gearing ratio of the Group, computed by dividing the short-term bank loans by the total assets, as at 30th June, 2008 was 6.5% compared with 5.7% as at 31st December, 2007.

Indebtedness

As of 30th June, 2008, the Group had RMB229.5 million short-term bank loans compared with RMB182.3 million as at 31st December, 2007.

Management Discussion and Analysis (continued)

Liquidity and Financial Resources

As at 30th June, 2008, the Group had RMB1,046.9 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB9.5 million. The Group had no long-term debt as at 30th June, 2008. The management believes the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational capital requirements of the Group.

Foreign Exchange

The majority of the Group's sales, purchases and operating expenses were denominated in RMB, US dollars, Japanese yen, Hong Kong dollars and Euro. The Board believes that the Group has been and will continue to be exposed to foreign currency exchange risks. 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. The Group has entered into foreign exchange linked contracts to minimise the effect of exchange rate fluctuations between RMB and the US dollars.

Charges on Group Assets

As at 30th June, 2008, no Group asset was under charge to any financial institution.

Material Acquisition or Disposals of subsidiaries and Associated Company

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

Investments in 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, pancake and SMD vibrators as well as 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 30th June, 2008, the Group employed 13,339 permanent employees worldwide. Various training activities were provided to the employees for improving the quality of services as well as for ensuring the smooth and effective operation of the Group's business.

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 appraise work performance of its staff.



Management Discussion and Analysis (continued)

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

Dividends

The form, frequency and amount of future dividends on the shares of the Company will depend on the Group's earnings and financial position, results of operations, capital needs, plans for expansion and other factors as the Board may deem appropriate. The Board may recommend the amount of dividends to be declared and the declaration and payments of dividends will be determined by the shareholders in general meeting. The amount of dividends to be declared shall not be in excess of the amount recommended by the Board.

No dividends have been paid or declared by the Company for the six months ended 30th June, 2008.

Prospects

With a much more diversified customer base, we are well-positioned for strong growth for the rest of 2008 and beyond. We are well-known for our superior research and development capabilities as well as our ability to achieve accelerated launching and mass production of new product platforms due to the flexibility brought about by our semi-automated manufacturing processes and fully vertically-integrated production model. 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.

Definitions

"ASIC"	Application Specific Integrated Circuits which is an integrated circuit (IC) customized for a particular use, rather than intended for general-purpose use.
"MEMS"	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.

Other Information

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

As at 30th June, 2008, the beneficial interests of the directors and chief executives in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited 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 share Company's share capital
Mr. Benjamin Zhengmin Pan ("Mr. Pan") ⁽¹⁾	58,520,634	21,983,862	51,439,440	309,828,594	137,114,002	578,886,532	47.14%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") ⁽²⁾	309,828,594	21,983,862	—	109,960,074	137,114,002	578,886,532	47.14%
Mr. Koh Boon Hwee	1,307,562	—	—	—	—	1,307,562	0.11%
Mr. Kang Pei	—	12,000	—	—	—	12,000	0.001%
Mr. Li Xiang ⁽³⁾	35,155,887	—	—	—	—	35,155,887	2.86%

Notes:

(1) Mr. Pan beneficially owns 58,520,634 shares. Mr. Pan is also deemed or taken to be interested in the following shares:

- (i) 21,983,862 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) 309,828,594 shares which are beneficially owned by Ms. Wu as Mr. Pan is Ms. Wu's husband;
- (iv) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18; and
- (v) 4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.

(2) Ms. Wu beneficially owns 309,828,594 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

- (i) 21,983,862 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, therefore, 51,439,440 shares are deemed to be owned by Ms. Wu as she is Mr. Pan's wife;
- (iii) 58,520,634 shares which are beneficially owned by Mr. Pan as Mr. Pan is Ms. Wu's husband;

Other Information (continued)

- (iv) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18; and
- (v) 4,738,844 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Both children of Mr. Pan and Ms. Wu are under the age of 18.
- (3) Mr. Li Xiang resigned from the Group in April 2008 and is currently a consultant of the Group.

Other than as disclosed above, as at 30th June, 2008, none of the directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

Substantial Shareholders

As at 30th June, 2008, 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
JP Morgan Chase & Co. ⁽¹⁾	216,125,545(L)	17.60%
	79,011,543(P)	6.43%
Schroder Investment Management (Hong Kong) Limited	86,280,000(L)	7.00%
Prudential Plc ⁽²⁾	87,178,000(L)	7.07%
Emerging Markets Management, L.L.C.	75,608,000(L)	6.00%
AllianceBernstein L.P. ⁽³⁾	62,494,000(L)	5.05%
Credit Suisse Group ⁽⁴⁾	93,600,000(L)	7.50%
	93,600,000(S)	7.50%

- (1) J.P. Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 216,125,545 shares of the Company.
- (i) 79,011,543 shares are directly held by JP Morgan Chase Bank, N.A., J.P. Morgan Chase & Co. is deemed to be interested in these 79,011,543 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.; and
- (ii) 137,114,002 shares are directly held by J.P. Morgan International Bank Limited., by virtue of JP Morgan Overseas Capital Corporation's 100% interest in J.P. Morgan International Bank Limited., J.P. Morgan International Finance Limited's 100% interest in JP Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in JP Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, J.P. Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., each of JP Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JP Morgan Chase Bank, N.A., and J.P. Morgan Chase & Co. are deemed to be interested in these 137,114,002 shares.
- (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 87,178,000 shares in the Company directly held by Prudential Asset Management (Hong Kong) Ltd.

Other Information (continued)

- (3) *AllianceBernstein L.P. through its various controlled corporations is interested in an aggregate of 62,494,000 shares of the Company.*
- (i) *By virtue of AllianceBernstein L.P. 100% interest in AllianceBernstein Corporation of Delaware, AllianceBernstein Corporation of Delaware 100% interest in AllianceBernstein (Singapore) Ltd., each of AllianceBernstein L.P., AllianceBernstein Corporation of Delaware and AllianceBernstein(Singapore) Ltd. is deemed to be interested in 59,384,000 shares in the Company indirectly held by Prudential Asset AllianceBernstein(Singapore) Ltd.; and*
- (ii) *By virtue of AllianceBernstein L.P. 100% interest in AllianceBernstein Corporation of Delaware, AllianceBernstein Corporation of Delaware 100% interest in AllianceBernstein Limited., each of AllianceBernstein L.P., AllianceBernstein Corporation of Delaware and AllianceBernstein Limited. is deemed to be interested in 7,090,000 shares in the Company indirectly held by Prudential Asset AllianceBernstein Limited.*
- (4) *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, Credit Suisse First Boston International (Guernsey) 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 30th June, 2008, so far as was known to any director of the Company, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were 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.

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 "**SO Scheme**") which will expire at its tenth anniversary. For details of the SO Scheme, please refer to the prospectus of the Company dated 28th July, 2005.

During the six months ended 30th June, 2008, no options had been granted or agreed to be granted or outstanding under the SO Scheme of the Company.

Arrangements to Purchase Shares or Debentures

At no time during the six months ended 30th June, 2008 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.

Purchase, Sale or Redemption of Shares

During the six months ended 30th June, 2008, we repurchased 10,000,000 shares through the Stock Exchange of Hong Kong Limited. The above shares were cancelled upon repurchase.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2008.

Other Information (continued)

Corporate Governance

During the six months ended 30th June, 2008, the Company has complied with the code provisions 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 of Hong Kong Limited.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of listed issuers contained in Appendix 10 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Model Code").

All 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 Directors' securities transactions during the six months ended 30th June, 2008.

Board Committees

Audit Committee

The Board has established an Audit Committee on 16th April, 2005. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Audit Committee comprises two independent non-executive Directors, namely, Mr. Mok Joe Kuen Richard and Mr. Koh Boon Hwee and a non-executive Director, Ms. Ingrid Chunyuan Wu. Mr. Mok Joe Kuen Richard is the chairman of the Audit Committee.

The Audit Committee and the auditors of the Company, Deloitte Touche Tohmatsu, have reviewed and discussed with the management regarding the Company's unaudited consolidated interim financial statements for the six months ended 30th June, 2008.

Remuneration Committee

The Board has established a Remuneration Committee on 16th April, 2005 in compliance with the CG Code. The Remuneration Committee will make recommendations to the Board on the remuneration of executive Directors and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors. Members of the Remuneration Committee include Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Dr. Thomas Kalon Ng. Mr. Koh Boon Hwee is the chairman of the Remuneration Committee.

Nomination Committee

The Board has established a Nomination Committee on 16th April, 2005 in compliance with the CG Code. The Nomination Committee will make recommendations to the Board on the appointment of executive Directors and senior management. Members of the Nomination Committee include Dr. Dick Mei Chang, Mr. Mok Joe Kuen Richard and Mr. Pei Kang. Dr. Dick Mei Chang is the chairman of the Nomination Committee.

By Order of the Board
AAC ACOUSTIC TECHNOLOGIES HOLDINGS INC.
Koh Boon Hwee
Chairman

Hong Kong, 8th September, 2008