AAC Acoustic Technologies Holdings Inc.

瑞聲聲學科技控股有限公司*

(incorporated in the Cayman Islands with limited liability)
Stock Code : 02018

Annual Report 2009

*For identification purpose only

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Benjamin Zhengmin Pan (Chief Executive Officer)
Mr. Mok Joe Kuen Richard
(Re-designated from independent non-executive director to executive director on 5th October, 2009)

Non-executive Directors

Ms. Ingrid Chunyuan Wu
Mr. Pei Kang

Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
(Appointed on 5th October, 2009)
Dato' Tan Bian Ee (Appointed on 11th September, 2009)
Dr. Dick Mei Chang (Resigned on 11th September, 2009)

COMPANY SECRETARY

Mr. Cheung Yuk Chuen

AUDIT COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)
(Appointed on 5th October, 2009)
Mr. Koh Boon Hwee
Ms. Ingrid Chunyuan Wu

REMUNERATION COMMITTEE

Mr. Koh Boon Hwee (Chairman)
Mr. Pei Kang
Dato' Tan Bian Ee (Appointed on 11th September, 2009)
Dr. Dick Mei Chang (Resigned on 11th September, 2009)

NOMINATION COMMITTEE

Dato' Tan Bian Ee (Chairman)
(Appointed on 11th September, 2009)
Mr. Pei Kang
Mr. Poon Chung Yin Joseph
(Appointed on 5th October, 2009)
Dr. Dick Mei Chang (Resigned on 11th September, 2009)

AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan
Mr. Cheung Yuk Chuen

Alternative Authorized Representative

Mr. Mok Joe Kuen Richard

AUDITOR

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

02018

WEBSITE

www.aacacoustic.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

2009 was a challenging year. We were impacted by the global financial tsunami in 2008, but AAC Acoustic Technologies Holdings Inc. (''AAC'' or the ''Company'') managed to pull out from the trough of the downturn from the beginning of 2009 and regained its growth momentum. This resulted in 2009's financial performance being slightly better than that of 2008.

The Company managed to end the year posting only a slight decline in sales revenue but achieving a better gross and net profit over the previous year. The Company's sales revenue reached RMB2,203.1 million, 2.3% lower than our 2008 sales revenue of RMB2,256.0 million. The Company's overall gross profit rose to a record high of RMB989.1 million, representing an increase of 5.2% over 2008 gross profit of RMB940.5 million. During 2009, we booked a record high net profit for owners of the Company of RMB615.0 million, which was 4.2% higher than RMB590.4 million in 2008. Basic earnings per share for 2009 were RMB50.08 cents versus RMB48.01 cents for 2008.

The Board will recommend the payment of a final dividend for the year ended 31st December, 2009 of HK15.5 cents per ordinary share. This final dividend, together with the interim dividend, represents a payout ratio of about 40% of the profit attributable to the owners of the Company.

During 2009, we recorded a gross margin of 44.9% and booked a net profit margin of 27.9%. The increase in gross margin and net margin, which has taken into account any adverse foreign currency impacts, was due to continuous process improvements, cost and expense controls as well as higher production utilization caused by our increased business. Product mix was another contributing factor.

In spite of the challenges posed by the world economy in the year, AAC was able to improve its strong balance sheet. By the end of 2009, the Company had a total of RMB1.7 billion in cash and bank balances, and the Company's net cash position was RMB1.5 billion.

Here are the highlights of our achievements in 2009:

- Increased business in existing leading global mobile phone customers
- Expanded our product range with existing and new customers
- Increased business at leading portable game console customer
- Increased business at leading Smart Phone customers
- Increased business at leading notebook manufacturers
- Successfully combined both RF and acoustic technologies as a total speaker module solution
- Successfully acquired the Low Temperature Co-fired Ceramic (LTCC) business in South Korea
- Successfully invested in a world leader of Wafer Level Optic (WLO) polymer on glass technology
- Continued to reap the benefits of Continuous Improvement Program across the Company

CHAIRMAN'S STATEMENT

AAC remains committed to advancing our technology and developing our in-house intellectual property. In 2009, we successfully obtained 116 additional patents bringing our portfolio to a total of 214 patents. In 2009, we filed another 251 patents pending, which brings us to a total of 313 patents pending by the end of 2009. We also intend to strengthen our technology portfolio via acquisitions. The Company's management team is committed to seeking out appropriate acquisition targets globally which can further strengthen the Company's existing technology base. In 2009, we acquired a LTCC R&D and manufacturing business in South Korea which aids the development of our acoustic, vibrator and antenna solution strategies. Our Company has also made a strategic investment in the global leader of reflowable WLO polymer on glass lens technology company, with operations in Switzerland and Singapore, which advances the Company's optical solution strategy.

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

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

I am deeply grateful to our staff and management for the tremendous effort made in 2009. It is a very satisfactory set of results given the difficult economic environment. We also want to thank all our customers and suppliers for their confidence in us and for their support. Thank you also to my fellow board members for their insight and wise counsel during these challenging times.

Koh Boon Hwee
Chairman

29th March, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

AAC is one of the world's foremost vertically integrated 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 electronic book-readers, MP3 players and MP4 players.

Besides growing organically with continuous development of in-house intellectual property, the Company also intend to strengthen our technology portfolio through investments, mergers and acquisitions. Our management team is committed to seeking appropriate investment targets globally for companies and technologies that further broaden and strengthen the Company's existing technology base.

MARKET REVIEW

The worldwide economy was at the trough of the economic downturn during the early part of the year 2009. The Company had a difficult first quarter as customers continue to push out and cancel projects. With new projects wins, and new programs designed-in at our key customers, the Company managed to sustain healthy financial performance and regained our revenue growth momentum during the second half of 2009. Our market share within the mobile handset industry increased as a result of this continuous effort.

In order to diversify risks and maximize our potential, the Company expanded its market reach to include areas other than acoustic components solutions and mobile handset industry. Our solutions and markets expand to notebooks, personal navigation devices, digital cameras and camcorders, MP3 and MP4 players, eBooks and LED backlight LCD TV's. In 2009, we also launched our ceramic speakers using technology acquired from our LTCC acquisition.

The Company remains committed in advancing our leadership in technology, and the development of in-house intellectual property. In 2009, we have successfully obtained 116 additional patents bringing our total portfolio of 214 patents. In total for the year 2009, we filed another 251 patents pending, which brings to 313 patents pending.

FINANCIAL REVIEW

Although we started off in an unfavorable economic environment at the beginning of 2009, we managed to achieve a decent financial position and we generated RMB821.1 million in net cash flows from operations for the year ended 31st December, 2009. Revenue of the Group for the year ended 31st December, 2009 amounted to RMB2,203.1 million, representing a decrease of 2.3% from RMB2,256.0 million for the corresponding period of previous year. Gross profit amounted to RMB989.1 million, representing an increase of 5.2% from RMB940.5 million for the corresponding period of 2008. Profit attributable to owners of the Company amounted to RMB615.0 million, representing an increase of 4.2% from RMB590.4 million for the corresponding period of 2008. Basic earnings per share amounted to RMB50.08 cents, representing an increase of 4.3% from RMB48.01 cents for the corresponding period of 2008.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the short-term bank loans by the total assets, as at 31st December, 2009 was 4.4% compared with 5.4% as at 31st December, 2008.

INDEBTEDNESS

As at 31st December, 2009, the Group had RMB187.1 million of short-term bank loans compared with RMB200.3 million as at 31st December, 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2009, the Group had RMB1,735.2 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB10.4 million. The Group had no long-term debt as at 31st December, 2009. 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 requirements capital 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. During the year 2009, the Company has entered into foreign currency forward contracts to minimise the effect of exchange rate fluctuations between Euro and the US dollars.

CHARGES ON GROUP ASSETS

As at 31st December, 2009 and 31st December, 2008, no Group asset was under charge to any financial institution.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

During the year, the Group disposed of its entire interests in AAC Electronics Ltd. ("AACE") to the minority shareholder of AACE for an aggregate consideration of RMB8.9 million. Other than as disclosed above, the Group had no material acquisition or disposal of any subsidiaries and associated companies for the year ended 31st December, 2009.

INVESTMENTS IN TECHNOLOGY AND NEW PRODUCTS

During the year 2009, we made two strategic investments. First, we made an investment in multi-layer ceramic technology, as a material medium to improve our product portfolio. The technology provides leading product solutions in the Piezo ceramic speaker, vibrator (Haptics), and many RF key components, such as ceramic chip antenna, filter, diplexer and substrate for wireless communication. In May 2009, the Group completed its acquisition of the entire LTCC division of a Korean component manufacturer for a total consideration of RMB15.0 million. With this investment, we are able to bridge the technology gap to embed multi-layer ceramic technology to build more completed acoustic-RF integrated modules and imaging component solutions, increasing the Company's total available market and accessibility. Second, in June 2009, the Group acquired 16.7% of the issued share capital of Heptagon Oy for a consideration of RMB27.7 million. This particular investment in WLO lens technology enables us to participate in reflowable fine-structure free-form/aspheric micro-optics solutions.

Our on-going focus on MEMS technology (microphones and accelerometers) research investments include the design and packaging of MEMS (including use of LTCC technologies) as well as technologies related to active noise-cancellation, sound projection, related digital processing methods and software development. We will continue our focus on further investment in imaging component technologies.

EMPLOYEE INFORMATION

As at 31st December, 2009, the Group employed 8,034 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 and mandatory pension fund. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, Taiwan, Singapore, South Korea, USA and various countries in Europe.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

With a much more diversified customer and market base, we are well-positioned for stronger growth. We are able to leverage our strengths in research and development to quickly ramp up new product platforms to increase market share in existing customers and acquire new customer, and to make use of our fully automated and semi-automated manufacturing processes to realize a fully vertically-integrated production model for increasingly complex acoustic-wireless solutions. Looking ahead, we strive to achieve long term sustainable growth by advancing our integrated solution products and diversifying our market focus.

In addition to our important marketing share in acoustic and vibrator product segments, we are also addressing potential markets of other miniature components. For instance, optical components are widely used in all kinds of consumer electronics, enabling customers to capture their precious moments, anytime, anywhere; wireless transmission antenna components enable complex signal transmission, allowing people to stay connected. Ultimately, our goal is to become one of the world's leading micro components, accessories and total solution providers for manufacturers of all kinds of consumer electronic devices.

DIVIDENDS

From time to time, the Company will consider the declaration of dividend based on 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 dividend to be declared, and the declaration and payment of dividends will be determined by the shareholders of the Company in general meeting.

During the six months ended 30th June, 2009, a final dividend for the year ended 31st December, 2008 of HK10.9 cents per share was paid to shareholders of the Company.

During the six months ended 31st December, 2009, an interim dividend in respect of the six months ended 30th June, 2009 of HK7.2 cents per share was paid to shareholders of the Company.

The Board recommended the payment of a final dividend of HK15.5 cents per ordinary share in respect of the year ended 31st December, 2009. This final dividend together with the interim dividend represents a total payout ratio of about 40% of the profit attributable to owners of the Company for the year ended 31st December, 2009.

DEFINITIONS

"LTCC"	Low Temperature Co-Fired Ceramics technology which is a technology used in Chip Antenna and substrate for wireless communication.
"MEMS''	Micro Electro Mechanical Systems ("MEMS") is based on semiconductor technology which uses silicon to create electrical pathways within components.
"RF"	Radio Frequency ("RF") is the frequency used for transmitting data, audio, or video.
"WLO"	Wafer Level Optic Lens technology.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 41, is an executive Director and chief executive officer of the Company. Mr. Pan co-founded the Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing the 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 the 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. ("Audio Changzhou") 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 the spouse of Ms. Ingrid Chunyuan Wu, the non-executive Director and a substantial Shareholder.

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

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

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

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

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

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

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

(iii) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. One child of Mr. Pan and Ms.Wu is over and another is under the age of 18; and

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

Save as disclosed above, Mr. Pan does not have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 46, has been appointed as an independent non-executive Director since 16th April, 2005. He was re-designated from an independent non-executive Director to an executive Director on 5th October, 2009. 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. Mr. Mok is currently a director of Ulmus Investment Limited, a Hong Kong-based private investment company.

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

Mr. Mok has entered into a service agreement with the Company for a term of three years commencing from 5th October 2009, which continues thereafter until terminated by either party giving not less than 60 days' notice in writing or 60 days' payment in lieu of notice to the other party. He is entitled to a basic salary of approximately HK$1,860,000 per year (which is covered by the service agreement) and will be paid monthly in arrears which is determined upon negotiation between Mr. Mok and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions, and, is subject to review periodically as determined by the Company.

Save as disclosed above, Mr. Mok does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Ms. Ingrid Chunyuan Wu ("Ms. Wu"), aged 39, is a non-executive Director of the Company. She is also a member of the audit committee of the Company. Ms. Wu co- founded the 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, Audio Changzhou in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as the chief operating officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is the spouse of Mr. Pan, the executive Director, chief executive officer and a substantial Shareholder of the Company.

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

Ms. Wu has entered into a letter of appointment with the Company for a term of two years commencing from 16th April 2009, which continues thereafter until terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. She is entitled to the director's fee of HK$110,000 per year (which is covered in the letter of appointment and was adjusted to US$25,000 per year with effect from 1st January, 2009) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Wu and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

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

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

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

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company 100% owned by Mr. Pan, therefore, 51,439,440 shares are deemed to be owned by Ms. Wu as she is his spouse;

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

(iii) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. One child of Mr. Pan and Ms.Wu is over and another is under the age of 18; and

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

Save as disclosed above, Ms. Wu does note hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Pei Kang ("Mr. Kang"), aged 52, has been appointed to the Board as an non-executive Director since February 2007. He is also a member of the nomination committee and remuneration committee of the Company. He has over 25 years of working experience in the technology industry, including over 18 years of experience in various technical and management positions with IBM. He is currently a managing partner of Chengwei Ventures Shanghai LLC, a venture capital investment firm that focuses on investing in companies in China. Mr. Kang received a Bachelor of Science degree from Chinese Culture University, Taipei.

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

Mr. Kang has entered into a letter of appointment with the Company for a term of two years commencing from 15th February 2009, which continues thereafter until terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to a director's fee of HK$95,000 per year (which is covered by the letter of appointment and was adjusted to US$25,000 per year with effect from 1st January, 2009) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Kang and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

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

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

Save as disclosed above, Mr. Kang does note hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 59, is the Chairman of the Board and an independent non-executive Director. Mr. Koh has been appointed to the Board since November 2004. He is also the chairman of the remuneration committee and a member of the audit committee of the Company. Mr. Koh brings with him extensive management experience and leadership. He is currently the chairman of Sunningdale Tech Ltd. He is also the chairman of DBS Group Holdings Ltd and DBS Bank Ltd but will step down as chairman on 30th April, 2010. Mr. Koh is also a director of Temasek Holdings (Pte) Ltd, Yeo Hiap Seng Limited and Yeo Hiap Seng (Malaysia) Berhad. Mr. Koh also sits on the board of Agilent Technologies, Inc. Mr. Koh is also the chairman of the Nanyang Technological University Board of Trustees. Mr. Koh has over 20 years of experience in the IT-related and electronics industries. Mr. Koh was previously chairman of Singapore Airlines Ltd (2001-2005), SIA Engineering Company Ltd (2003-2005), Singapore Telecom Group and its predecessor organizations (1986-2001), Omni Industries Ltd (1996-2001), executive chairman of Wuthelam Holdings Pte Limited (1991-2000) and, before that, managing director of Hewlett Packard Singapore (1985-1990), where he started his career in 1977. Mr. Koh graduated from the Imperial College, University of London, with a Bachelor's Degree (First Class Honours) in Mechanical Engineering. Mr. Koh also holds a Master's Degree in Business Administration (Distinction) from Harvard Business School. Mr. Koh was awarded Singapore's Public Service Star in 1991, the Meritorious Service Medal in 1995, and the Distinguished Service Order in 2008 by the President of Singapore.

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

Mr. Koh has entered into a letter of appointment with the Company for a term of two years commencing from 16th April 2009, which continues thereafter until terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He is entitled to the director's fee of HK$165,000 per year (which is covered by the letter of appointment and was adjusted to US$60,000 per year with effect from 1st January, 2009) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Koh and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

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

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

Save as disclosed above, Mr. Koh does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Dato' Tan Bian Ee ("Dato' Tan"), aged 63, was appointed as an independent non-executive Director, the chairman of the nomination committee and a member of the remuneration committee of the Company on 11th September, 2009. He is a also director of Singapore Airlines Engineering Company, a company listed on the Singapore Stock Exchange since 2004. Dato' Tan was the chief operating officer of Avago Technologies and Worldwide Sales and Global Operations prior to his retirement in February 2009. He joined Hewlett-Packard in 1973 and was promoted to Hewlett-Packard Malaysia Managing Director in 1989. He was then appointed as the President of Agilent Technologies Malaysia and Singapore in 1999 when Hewlett-Packard spun off its Semiconductor Component Operations to form Agilent Technologies Inc. Dato' Tan has been council member in the Industrial Coordination Council under the Ministry of International Trade & Industry of Malaysia since 2000. Dato' Tan was a director of Singapore Workforce Development Agency under the Singapore Ministry of Manpower from 2004-2005. He was also the Northern Region Chairman for Young Enterprise from 2003 – 2004, a community educational programme under the auspices of the American Malaysian Chamber of Commerce and a founder member of Penang Skills Development Corporation.

Dato' Tan holds a Diploma in Medical Laboratory Technology and Management Studies, as well as a Master of Business Administration with Distinctions from the Golden Gate University. He was awarded the Pingat Kelakuan Tertinggi (Exemplary Leadership Award), Darjah Johan Negeri (DJN – Second Highest State Award) and the Darjah Setia Pangkuan Negeri which carries the title Dato' (DSPN) in 1991, 1995 and 1999 respectively from the State Government of Penang, Malaysia.

Dato' Tan does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Dato' Tan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

Dato' Tan has entered into a letter of appointment with the Company for a term of two years commencing from 11th September 2009, which can be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree. Pursuant to the articles of association of the Company, Dato' Tan will hold office until the next annual general meeting of the Company but shall be eligible for re-election. Thereafter, he shall be subject to retirement by rotation and re-election in accordance with the articles of association of the Company. Dato' Tan is entitled to a director's fee of US$30,000 per year (which is covered in the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dato' Tan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions.

Save as disclosed above, Dato' Tan does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Poon Chung Yin Joseph ("Mr. Poon"), aged 55, was appointed as an independent non-executive Director, the chairman of the audit committee and a member of the nomination committee of the Company on 5th October, 2009. He is Group Managing Director of a private company and an independent non-executive director of Hysan Development Company Limited. Mr. Poon was formerly managing director and deputy chief executive of Hang Seng and had held several senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon is a member of the Board of Inland Revenue of Hong Kong Special Administrative Region, a committee member of the Chinese General Chamber of Commerce and a member of the Environment and Conservation Fund Investment Committee. He was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited. Mr. Poon graduated with a Bachelor of Commerce degree from the University of Western Australia. Mr. Poon is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia.

Mr. Poon does not have any relationships with other Directors, senior management, substantial shareholders, or controlling shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Poon did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

Mr. Poon has entered into a letter of appointment with the Company for a term of two years commencing from 5th October 2009, which continues thereafter until terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree. Pursuant to the articles of association of the Company, Mr. Poon will hold office until the next general meeting of the Company but shall be eligible for re-election. Thereafter, he shall be subject to retirement by rotation and re-election in accordance with the articles of association of the Company. He is entitled to the director's fee of US$45,000 per year (which is covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Poon and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. Such director's fee shall be subject to annual review by the Company.

Save as disclosed above, Mr. Poon does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

SENIOR MANAGEMENT

Mr. Du Kuang-Yang ("Mr. Du"), aged 60, 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. David Plekenpol ("Mr. Plekenpol") aged 50, is the chief strategy officer the Company. Mr. Plekenpol has spent the past sixteen years in the telecom industry, with executive positions in both Lucent and Alcatel. He founded two Silicon Valley VC-backed startup companies, led sales & marketing for an optical component startup in Scotland and spent two years with a VC-backed Chinese mobile design startup in Shanghai before joining AAC. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University. Mr. Plekenpol also serves as chairman of the Board of the Community Center Shanghai. Mr. Plekenpol joined AAC in February 2010.

Mr. Stephen Sung Him Chan ("Mr. Chan"), aged 51, is, formerly the chief financial officer of the Company, responsible for evaluating, negotiation, managing and monitoring the Company's corporate investments, has over 25 years of public and commercial accounting and finance experience. As an experienced accounting professional, Mr. Chan specialized in manufacturing industries including automotive parts, electronics, and hi-tech for a number of years. Mr. Chan has held senior financial positions in China and Canada at various multi-national corporations, such as Flextronics and Solectron. Mr. Chan graduated with Bachelor of Commerce degree from University of Toronto in 1979. Mr. Chan holds three professional designations, namely the Certified Management Accountant (CMA) in Canada, the Certified Public Accountant (CPA) in USA, and the Associate of the Chartered Institute of Management Accountants (ACMA) in UK. Mr. Chan joined AAC in April 2008.

Mr. Zhu Bingke ("Mr. Zhu"), aged 46, is the Vice President of Acoustic Research and Development of the Company. Mr. Zhu assists the chief executive officer and chief operating officer in the overall coordination of projects, operation and management of the Group. He is also a general manager of Changzhou Weililai Electronic Acoustic Device Co., Ltd. Prior to joining the 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 ("Mr. Di"), aged 38, is the Vice President of advantage manufacting technology and supply chain of the Company. Mr. Di is in charge of our manufacture engineering operation. Mr. Di has over 15 years' experience in tooling and manufacture engineering. He was the General Manager of Changzhou Kaitai Machinery and Electronics Co., Ltd. from August 1998 to September 2001. Since September 2001, Mr. Di has been the General Manager of Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.. Mr. Di studied tooling design and manufacturing at Jiangsu Changzhou Institute of Radio Industry (常州無線電工業學院) in the PRC.

Mr. Edward Y. Liu ("Mr. Liu"), aged 47, 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. Wang Jian ("Mr. Wang"), aged 39, is the 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.

Dr. Chulho Kim ("Dr. Kim"), aged 49, is the Vice President of Non-acoustic Devices Research and Development of the Company. Dr. Kim is experienced in the development of electronic device and related mass production technologies, and also did research and development management for over 10 years in Samsung Korea. Dr. Kim also have successfully developed many key devices and related mass production technologies for mobile terminal, Dr. Kim obtained a Doctor's degree of material science at Seoul National University in 1993, and finished post doctor course in Korean Institute of Science and Technologies (KIST). He joined the Company in December 2007.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2009.

ADOPTION OF CHINESE NAME

Pursuant to a resolution passed by the board of Directors on 3rd September, 2009, the Group adopted the Chinese name "瑞聲聲學科技控股有限公司" for identification purposes only.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 32.

An interim dividend of HK7.2 cents per ordinary share was paid during the year. The Directors have resolved to recommend the payment of a final dividend of HK15.5 cents per ordinary share.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the share premium accounts and the contributed surplus less deficit which amounted to RMB854,983,000 (2008: RMB1,055,377,000). 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 of the Company subject to the provisions of its memorandum and articles of association of the Company 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 Directors:

Mr. Benjamin Zhengmin Pan (Chief Executive Officer)
Mr. Mok Joe Kuen Richard (re-designated from independent non-executive Director to executive Director on 5th October, 2009)

Non-executive Directors:

Ms. Ingrid Wu Chunyuan
Mr. Pei Kang

Independent Non-executive Directors:

Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph (appointed on 5th October, 2009)
Dato' Tan Bian Ee (appointed on 11th September, 2009)
Dr. Dick Mei Chang (resigned on 11th September, 2009)

DIRECTORS' REPORT

In accordance with Article 87 of the Company's Articles of Association, Mr. Benjamin Zhengmin Pan ("Mr. Pan") and Mr. Pei Kang will retire by rotation and, being eligible, Mr. Pan offers himself for re-election at the forthcoming annual general meeting of the Company while Mr. Pei Kang will not offer himself for re-election due to the reason that he would like to devote more time to pursue his other business interests.

In accordance with Article 86(3), Dato' Tan Bian Ee and Mr. Poon Chung Yin Joseph will hold office until the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election.

Mr. Pan has entered into a service agreement with the Company for a term of three years from 15th July, 2008, subject to termination by either party giving no less than 60 days' prior notice in writing or 60 days' payment in lieu of notice.

Mr. Mok Joe Kuen Richard has entered into a service agreement with the Company for a term of three years commencing from 5th October, 2009, which can be terminated by either party giving not less than 60 days' notice in writing or 60 days' payment in lieu of notice to the other party.

Each of Ms. Ingrid Chunyuan Wu ("Ms. Wu") and Mr. Koh Boon Hwee has entered into a letter of appointment with the Company for a term of two years from 16th April, 2009, 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, 2009, 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.

Dato' Tan Bian Ee has entered into a letter of appointment with the Company for a term of two years commencing from 11th September, 2009, which can be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree.

Mr. Poon Chung Yin Joseph has entered into a letter of appointment with the Company for a term of two years commencing from 5th October, 2009, which can be terminated by either party giving at least three months' 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 their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and it still considers that the independent non-executive Directors are independent.

Biographical details of the Directors and senior management of the group as at the date of this annual report are set out on pages 8 to 15.

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

As at 31st December, 2009, 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 of interests 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 Issuers (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 ordinary shares	Percentage of the Company's issued share capital
Mr. Pan[1]	69,512,565	–	51,439,440	320,820,525	137,114,002	578,886,532	47.14%
Ms. Wu[2]	320,820,525	–	–	120,952,005	137,114,002	578,886,532	47.14%
Mr. Koh Boon Hwee	1,307,562	–	–	–	–	1,307,562	0.11%
Mr. Pei Kang	–	12,000	–	–	–	12,000	0.001%

Notes:

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

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

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

(iii) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. One child of Mr. Pan and Ms. Wu is over and another is under the age of 18; and

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

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

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

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

(iii) 132,375,158 shares which are deemed to be beneficially owned by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005. One child of Mr. Pan and Ms. Wu is over and another is under the age of 18; and

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

Other than as disclosed above, as at 31st December, 2009, 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 28 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 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 CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

In January 2010, the Company announced that owing to the expansion of the Group's business, the following actions had been taken and details of which are set out in the company's announcement dated 22nd January, 2010.

(i) On 7th October, 2009, an agreement was entered into between the member of the Group 瑞聲聲學科技(深圳)有限公司南油天安分公司 and mother of Ms. Wu ("Wu's Mother") (the "2009 Wu's Mother Agreement"), with all of the terms and conditions of the 2009 Wu's Mother Agreement the same as the 2009 Wu's Father Agreements, to renew the leasing of certain properties under three agreements entered into between the members of the Group and Wu's Father for the leasing of properties by the members of the Group in February 2006, which was expired on 31st December, 2008. Based on the 2009 Wu's Father Agreement or 2009 Wu's Mother Agreement (as the case may be), the Board expects the annual leasing rent payable under such agreements will not exceed RMB2.6 million for the two years ending 31st December, 2010.

(ii) Shenzhen Yuanyu and the Group has agreed to extend the tenure of the Shenzhen Yuanyu Agreements from expiring on 31st December, 2010 to 31st July, 2011 at the request of Shenzhen Yuanyu, in which the Directors consider it to be beneficial for the Group as it would allow the Group to secure the production facility at a reasonable leasing rent and hence, the Extended Shenzhen Yuanyu Agreement was entered into by the relevant parties on 21st August, 2009. Apart from the tenure being extended to 31st July, 2011, all of the terms and conditions of the Extended Shenzhen Yuanyu Agreement are the same as the Shenzhen Yuanyu Agreements. Based on the terms set out in the Shenzhen Yuanyu Agreements or the Extended Shenzhen Yuanyu Agreement (as the case may be), the Board expects the annual leasing rent payable under the Shenzhen Yuanyu Agreements or the Extended Shenzhen Yuanyu Agreement (as the case may be) will not exceed RMB4.8 million for each of the three years ending 31st December, 2011.

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

The Directors of the Company engaged the auditor of the Company to perform certain agreed upon procedures in respect of continuing connected transactions of the Group. The procedures were performed solely to assist the Directors of the Company to evaluate in accordance with Rule 14A.38 of the Listing Rules, whether the continuing connected transactions entered into by the Group for the year ended 31st December, 2009:

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

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

(c) have not exceeded the relevant cap amount for the financial year ended 31st December, 2009 disclosed in previous announcements.

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 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, 2009, the register of interests and short positions kept by the Company under section 336 of the SFO other than the Directors and chief executives, showed that the following persons held interests or short positions in the Company's shares:

Name of shareholder	Number of ordinary shares	Percentage of the Company's issued share capital
J.P. Morgan Chase & Co.[1]	232,492,002 (L)	18.93%
	94,666,000 (P)	7.71%
Credit Suisse Group[2]	93,600,000 (L)	7.62%
	93,600,000 (S)	7.62%
Schroder Investment Management (Hong Kong) Limited	85,788,000 (L)	6.99%
Capital Research and Management[3]	73,771,000 (L)	6.01%
Prudential Plc[4]	72,831,000 (L)	5.93%

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

(1) JP Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 232,492,002 shares of the Company.

(i) 94,666,000 shares are directly held by JP Morgan Chase Bank, N.A., JP Morgan Chase & Co. is deemed to be interested in these 94,666,000 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.;

(ii) 706,000 shares are directly held by JF Asset Management Limited, by virtue of JP Morgan Asset Management (Asia) Inc.'s 100% interest in JF Asset Management Limited, JP Morgan Asset Management Holdings Inc.'s 100% interest in JP Morgan Asset Management (Asia) Inc. and JP Morgan Chase & Co.'s 100% interest in JP Morgan Asset Management Holdings Inc., each of JP Morgan Asset Management (Asia) Inc., JP Morgan Asset Management Holdings Inc., and JP Morgan Chase & Co. are deemed to be interested in these 706,000 shares.

(iii) 137,114,002 shares are directly held by J.P. Morgan Trust Company of Delaware, by virtue of CMC Holding Delaware Inc.'s 100% interest in J.P. Morgan Trust Company of Delaware, J.P. Morgan Equity Holdings Inc's 100% interest in CMC Holding Delaware Inc., JP Morgan Chase & Co. 100% interest in J.P. Morgan Equity Holdings Inc., each of CMC Holding Delaware Inc., J.P. Morgan Equity Holdings Inc., JP Morgan Chase & Co. are deemed to be interested in these 137,114,002 shares.

(iv) 6,000 shares are directly held by JP Morgan Asset Management (Japan) Limited, JP Morgan Asset Management (Asia) Inc. is deemed to be interested in these 6,000 shares by virtue of its 100% interest in JP Morgan Asset Management (Japan) Limited.

(v) 454,000 shares are directly held by JP Morgan Asset Management (Taiwan) Limited, by virtue of JP Morgan Asset Management (Asia) Inc.'s 100% interest in JP Morgan Asset Management (Taiwan) Limited, JP Morgan Asset Management Holdings Inc.'s 100% interest in JP Morgan Asset Management (Asia) Inc. and, J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Asset Management Holdings Inc., each of JP Morgan Asset Management (Asia) Inc., JP Morgan Asset Management Holdings Inc., and J.P. Morgan Chase & Co. are deemed to be interested in these 454,000 shares.

Comprising 94,666,000 shares in the lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

(2) By virtue of Credit Suisse Group's 100% interest in Credit Suisse, Credit Suisse's 100% interest in Credit Suisse First Boston (International) Holding AG, Credit Suisse First Boston (International) Holding 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) Holding AG is deemed to be interested in 93,600,000 shares in the Company directly held by Credit Suisse First Boston (Hong Kong) Limited.

(3) By virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Research and Management Company, each of Capital Research and Management Company and The Capital Group Companies, Inc. is deemed to be interested in 73,771,000 shares in the Company directly held by Capital Research and Management Company Inc.

(4) 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. and Prudential Corporation Holdings Ltd. is deemed to be interested in 72,831,000 shares in the Company directly held by Prudential Asset Management (Hong Kong) Ltd.

Save as the interests and short positions disclosed above, as at 31st December, 2009, so far as was known to any Director, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who where interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 28 to the consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the year ended 31st December, 2009.

DIRECTORS' REPORT

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 74.3% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 41.8% of the Group's total sales.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float during the year ended 31st December, 2009.

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

29th March, 2010

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Board has reviewed its corporate governance practices and ensured that they are in compliance with the code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 to the Listing Rules on the Stock Exchange during the year ended 31st December, 2009.

DIRECTORS' SECURITIES TRANSACTIONS

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

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31st December, 2009.

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 currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board members and the terms of appointment of the Directors are set out in the "Director and service contracts" section of the "Directors' Report" on pages 16 to 17 of this report. In accordance with the Company's articles of association, all Directors (including executive Directors, non-executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years, which complies with the code provision A.4.2 of the CG Code.

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 8 to 15 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. The Board's responsibilities include the responsibility to regulate and evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities also include overseeing the structure and composition of the Company's top management and monitoring legal compliance, the management of risks related to the Company's operations. The Directors acknowledged their responsibility for preparing the accounts of the Company.

Independent Non-executive Directors

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

Board meetings are held regularly at least 4 times a year. Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. During the year ended 31st December, 2009, the Board convened a total of 6 meetings and the attendance of the Directors at these Board meetings are as follows:

Directors	Attendance
Executive Directors	
Mr. Benjamin Zhengmin Pan	6/6
Mr. Mok Joe Kuen Richard (re-designated from an independent non-executive Director to an executive Director on 5th October, 2009)	6/6
Non-executive Directors	
Ms. Ingrid Chunyuan Wu	6/6
Mr. Pei Kang	6/6
Independent Non-executive Directors	
Mr. Koh Boon Hwee	6/6
Dr. Dick Mei Chang (resigned on 11th September, 2009)	4/4
Mr. Poon Chung Yin Joseph (appointed on 5th October, 2009)	1/1
Dato' Tan Bian Ee (appointed on 11th September, 2009)	2/2

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in April 2005 and is chaired by Mr. Mok Joe Kuen Richard (an independent non-executive Director before 5th October, 2009 and resigned as the chairman of the Audit Committee on 5th October, 2009) and Mr. Poon Chung Yin Joseph (an independent non-executive Director and appointed as the chairman of the Audit Committee on 5th October, 2009) with two other members, Mr. Koh Boon Hwee (an independent non-executive Director) and Ms. Ingrid Chunyuan Wu (a non-executive Director).

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

During the financial year ended 31st December, 2009, the Audit Committee held 4 meetings and the Audit Committee meets as and when required. Details of the attendance of its meetings are as follows:

Members	Attendance
Mr. Mok Joe Kuen Richard (resigned as the chairman of the Audit Committee on 5th October, 2009)	3/3
Mr. Poon Chung Yin Joseph (appointed as the chairman on 5th October, 2009)	1/1
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	4/4

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established in April 2005 and is chaired by Dr. Dick Mei Chang (an independent non-executive Director and resigned as a Director on 11th September, 2009) and Dato' Tan Bian Ee (an independent non-executive Director and appointed as a Director on 11th September, 2009), with two other members, Mr. Mok Joe Kuen Richard (an independent non-executive Director before 5th October, 2009 and resigned as a member of the Nomination Committee on 5th October, 2009), Mr. Pei Kang (a non-executive Director) and Mr. Poon Chung Yin Joseph (an independent non-executive Director and appointed as a Director on 5th October, 2009).

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

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

The Nomination Committee convened three meetings during the year ended 31st December, 2009 to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. Details of the attendance of its meetings are as follows:

Members	Attendance
Dr. Dick Mei Chang (resigned as a Director on 11th September, 2009)	2/2
Mr. Pei Kang	3/3
Mr. Mok Joe Kuen Richard (resigned as a member on 5th October, 2009)	3/3
Dato' Tan Bian Ee (appointed as a Director on 11th September, 2009)	1/1

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in April 2005 and is chaired by Mr. Koh Boon Hwee (an independent non-executive Director) with two other members, Mr. Pei Kang (a non-executive Director and appointed as a member on 7th April, 2009), Dr. Dick Mei Chang (an independent non-executive Director and resigned as a Director on 11th September, 2009) and Dato' Tan Bian Ee (an independent non-executive Director and appointed as a Director on 11th September, 2009).

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

The Remuneration Committee convened three meetings during the year ended 31st December, 2009 to review the remuneration package of the Board and the senior management and to determine the remuneration of the newly appointed Directors. Details of the attendance of its meetings are as follows:

Members	Attendance
Mr. Koh Boon Hwee	3/3
Mr. Pei Kang (appointed as a member on 7th April, 2009)	3/3
Dr. Dick Mei Chang (resigned as a Director on 11th September, 2009)	2/2
Dato' Tan Bian Ee (appointed as a Director on 11th September, 2009)	1/1

Emolument policy

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

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

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees. Details of the share option scheme are set out in note 28 to the financial statements.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

During the year ended 31st December, 2009, the services provided to the Company by its external auditor, Messrs. Deloitte Touche Tohmatsu, and the respective fee paid is set out below:

Type of Services	2009 HK$'000
Audit services	2,100
Non-audit services	
Interim review	630
Others	–
Total:	2,730

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for overseeing the Group's system of internal controls and ensures sound and effective internal control to safeguard the Shareholders' investment and the assets of the Group. Independent professional consultant was engaged in 2006 to conduct the internal control review on the process of the Company's principal activities and no significant weaknesses was noted. During the year ended 31st December, 2009, the Board had reviewed the effectiveness of the internal control system and ensured that the internal control process had been properly carried out in making the investment decision and adequacy of resources, qualifications and experience of staff and the Group's accounting and financial reporting were maintained properly. The Board considers that the Group's internal control system covers all material aspects, including financial, operational, risk management functions and which compliance with all relevant regulations.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Reporting responsibilities of the Directors and the auditor of the Company are set out on page 30 of this annual report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the financial statements for the year ended 31st December, 2009 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

COMMUNICATIONS WITH SHAREHOLDERS

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

In each general meeting held during the year ended 31st December, 2009, the Board had ensured that:

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

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

The chairman of the Board, and the chairman or representative of all committees were available to answer questions at the annual general meeting held on 22nd May, 2009.

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

INDEPENDENT AUDITOR'S REPORT

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 32 to 75 which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, 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. 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.

INDEPENDENT AUDITOR'S REPORT

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, 2009 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
29th March, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	6	**2,203,143**	2,256,022
Cost of goods sold		**(1,214,054)**	(1,315,537)
Gross profit		**989,089**	940,485
Other income		**27,854**	65,495
Fair value gain (loss) on foreign exchange linked notes		**44**	(4,709)
Net fair value gain on foreign currency forward contracts		**6,358**	–
Gain on disposal of a subsidiary		**1,373**	–
Distribution and selling expenses		**(79,540)**	(103,017)
Administrative expenses		**(103,200)**	(120,254)
Research and development costs		**(159,105)**	(123,418)
Finance costs	7	**(4,035)**	(10,026)
Other expenses		**(2,364)**	(28,315)
Profit before taxation	8	**676,474**	616,241
Taxation	10	**(66,674)**	(25,638)
Profit for the year		**609,800**	590,603
Attributable to:			
Owners of the Company		**614,957**	590,434
Minority interests		**(5,157)**	169
		609,800	590,603
Profit for the year		**609,800**	590,603
Other comprehensive income and expense:			
Exchange differences arising from translation		**4,686**	(19,419)
Reversal of provision on disposal of a subsidiary		**2,971**	–
Other comprehensive income and expense		**7,657**	(19,419)
Total comprehensive income and expense for the year		**617,457**	571,184
Total comprehensive income and expense attributable to:			
Owners of the Company		**622,484**	572,612
Minority interests		**(5,027)**	(1,428)
		617,457	571,184
Earnings per share – Basic	12	**RMB50.08 cents**	RMB48.01 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,364,170**	1,289,356
Goodwill	14	**5,405**	5,405
Prepaid lease payments	15	**67,122**	70,024
Deposits made on acquisition of property, plant and equipment		**29,904**	56,049
Available-for-sale investments	16	**27,676**	–
Intangible assets	17	**26,708**	29,126
		1,520,985	1,449,960
Current assets			
Inventories	18	**230,206**	295,762
Trade and other receivables	19	**729,162**	563,130
Amount due from a minority shareholder of a subsidiary	20	**–**	10,537
Amounts due from related companies	21	**19,180**	19,152
Foreign exchange linked notes	22	**–**	80,923
Foreign currency forward contracts	23	**6,322**	–
Taxation recoverable		**2,169**	2,118
Restricted bank deposits	24	**10,430**	16,624
Bank balances, deposits and cash	24	**1,735,212**	1,266,011
		2,732,681	2,254,257
Current liabilities			
Trade and other payables	25	**481,960**	365,766
Amounts due to related companies	21	**8,965**	9,777
Taxation payable		**37,977**	13,176
Foreign currency forward contracts	23	**2,912**	–
Short-term bank loans	26	**187,095**	200,295
		718,909	589,014
Net current assets		**2,013,772**	1,665,243
Net assets		**3,534,757**	3,115,203

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	27	**99,718**	99,718
Reserves		**3,434,658**	3,008,050
Equity attributable to owners of the Company		**3,534,376**	3,107,768
Minority interests		**381**	7,435
Total equity		**3,534,757**	3,115,203

The consolidated financial statements on pages 32 to 75 were approved and authorised for issue by the Board of Directors on 29th March, 2010 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, 2009

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2008	100,530	811,716	(7,469)	–	(8,296)	87,245	104,212	1,489,398	2,577,336	10,639	2,587,975
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	(17,822)	–	–	–	(17,822)	(1,597)	(19,419)
Profit for the year	–	–	–	–	–	–	–	590,434	590,434	169	590,603
Total comprehensive income and expense for the year	–	–	–	–	(17,822)	–	–	590,434	572,612	(1,428)	571,184
Shares repurchased and cancelled	(812)	(64,759)	–	–	–	–	–	–	(65,571)	–	(65,571)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(2,477)	(2,477)
Acquisition of a non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	701	701
Deemed capital contribution from a shareholder arising from acquisition of a subsidiary (note 29 (a))	–	–	–	23,391	–	–	–	–	23,391	–	23,391
Transfers	–	–	–	–	–	–	46,828	(46,828)	–	–	–
At 31st December, 2008	99,718	746,957	(7,469)	23,391	(26,118)	87,245	151,040	2,033,004	3,107,768	7,435	3,115,203
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	4,556	–	–	–	4,556	130	4,686
Reserve released on disposal of a subsidiary	–	–	–	–	2,971	–	–	–	2,971	–	2,971
Profit for the year	–	–	–	–	–	–	–	614,957	614,957	(5,157)	609,800
Total comprehensive income and expense for the year	–	–	–	–	7,527	–	–	614,957	622,484	(5,027)	617,457
Dividend paid	–	–	–	–	–	–	–	(195,876)	(195,876)	–	(195,876)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(3,027)	(3,027)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	1,000	1,000
Transfers	–	–	–	–	–	–	12,653	(12,653)	–	–	–
At 31st December, 2009	99,718	746,957	(7,469)	23,391	(18,591)	87,245	163,693	2,439,432	3,534,376	381	3,534,757

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

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 reorganisations in preparation for the listing of the Company's shares in 2004 and 2005.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2009

	Notes	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**676,474**	616,241
Adjustments for:			
Interest income		**(15,646)**	(29,743)
Interest expense		**4,035**	10,026
Depreciation		**163,055**	126,126
Amortisation of development expenditure		**6,871**	6,647
Net fair value gain on foreign exchange currency forward contracts		**(6,358)**	–
Gain on disposal of a subsidiary		**(1,373)**	–
Fair value (gain) loss on foreign exchange linked notes		**(44)**	4,709
Operating lease rentals in respect of prepaid lease payments		**1,801**	1,295
Loss on disposal of property, plant and equipment		**883**	4,840
Discount on acquisition of additional interests in a subsidiary		**–**	(2,477)
Allowance for bad and doubtful debts		**1,481**	6,068
Reversal of allowance for bad and doubtful debts		**(1,146)**	(1,865)
Operating cash flows before movements in working capital		**830,033**	741,867
Decrease (increase) in inventories		**65,556**	(25,095)
(Increase) decrease in trade and other receivables		**(153,008)**	184,308
Increase (decrease) in trade and other payables		**117,449**	(66,092)
Amount received on settlement of foreign currency forward contracts		**2,948**	–
Cash from operations		**862,978**	834,988
Taxation paid		**(41,924)**	(36,707)
Net cash from operating activities		**821,054**	798,281

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Investing activities			
Proceeds received upon maturity of foreign exchange linked notes		**80,953**	–
Interest received		**15,646**	29,743
Decrease in restricted bank deposits		**6,194**	9,654
Repayment from a minority shareholder of a subsidiary		**2,971**	966
Net proceeds from disposal of a subsidiary (net of cash and cash equivalent disposed)	30	**1,366**	–
Purchase of property, plant and equipment		**(182,503)**	(430,125)
Deposits paid on acquisition of property, plant and equipment		**(29,904)**	(56,049)
Acquisition of available-for-sale investments		**(27,676)**	–
Additions to intangible assets		**(4,453)**	(4,041)
Net (advance to) repayment from related companies		**(28)**	7,285
Proceeds from disposal of property, plant and equipment		**–**	61,184
Acquisition of a subsidiary (net of cash and cash equivalent acquired)	29(a)	**–**	(116,318)
Prepaid rentals on land use rights		**–**	(12,521)
Acquisition of a business (net of cash and cash equivalent acquired)	29(b)	**–**	(946)
Net cash used in investing activities		**(137,434)**	(511,168)
Financing activities			
Bank loans raised		**123,876**	97,961
(Repayment to) borrowings from related companies		**(812)**	7,582
Dividend paid		**(195,876)**	–
Repayment of bank loans		**(137,252)**	(68,225)
Shares repurchased		**–**	(65,571)
Interest paid		**(4,035)**	(10,086)
Capital contribution from a minority shareholder of a subsidiary		**1,000**	–
Net cash used in financing activities		**(213,099)**	(38,339)
Net increase in cash and cash equivalents		**470,521**	248,774
Cash and cash equivalents at 1st January		**1,266,011**	1,024,538
Effect of foreign exchange rate changes		**(1,320)**	(7,301)
Cash and cash equivalents at 31st December		**1,735,212**	1,266,011
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**1,735,212**	1,266,011

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. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35.

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 the following new and revised standards, amendments and interpretations ("new and revised IFRSs").

IAS 1 (Revised 2007)	Presentation of financial statements
IAS 23 (Revised 2007)	Borrowing costs
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2 (Amendment)	Vesting conditions and cancellations
IFRS 7 (Amendment)	Improving disclosures about financial instruments
IFRS 8	Operating segments
IFRIC 9 & IAS 39 (Amendments)	Embedded derivatives
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 18	Transfers of assets from customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

The adoption of these new standards has resulted in the following changes.

Presentation of financial statements

In the current year, the Group has adopted International Accounting Standards ("IAS") 1 (Revised 2007) "Presentation of financial statements" which has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. The adoption of IAS 1 (Revised 2007), however, has no impact on the reported results or financial position of the Group.

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

Segment information

In the current year, the Group has adopted International Financial Reporting Standard ("IFRS") 8 "Operating segments". IFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group's chief operating decision maker (see note 6 for details). IFRS 8 replaces IAS 14 "Segment reporting" which required an entity to identify two sets of segments (business and geographical). The adoption of IFRS 8 has resulted in a redesignation of the Group's reportable segments but has no impact on the reported results of financial position of the Group (see note 6 for details).

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

IFRSs (Amendments)	Amendment to IFRS 5 as part of improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related party disclosures[5]
IAS 27 (Revised)	Consolidated and separate financial statements[1]
IAS 32 (Amendment)	Classification of right issues[4]
IAS 39 (Amendment)	Eligible hedged items[1]
IFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
IFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first time adopters[5]
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
IFRS 3 (Revised)	Business combinations[1]
IFRS 9	Financial instruments[7]
IFRIC 14 (Amendment)	Prepayments of a minimum funding requirement[5]
IFRIC 17	Distributions of non-cash assets to owners[1]
IFRIC 19	Extinguishing financial liabilities with equity instruments[6]

[1] Effective for annual periods beginning on or after 1st July, 2009.
[2] Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1st January, 2010.
[4] Effective for annual periods beginning on or after 1st February, 2010.
[5] Effective for annual periods beginning on or after 1st January, 2010.
[6] Effective for annual periods beginning on or after 1st July, 2011.
[7] Effective for annual periods beginning on or after 1st January, 2013.

The application 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.

IFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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 Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated statement of financial position.

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 statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

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

Acquisition of additional interests in subsidiaries

Discount arising on acquisition of additional interests in subsidiaries represents the excess of the carrying value of the net assets attributable to the additional interests in the subsidiaries over the cost of acquisition. Discount on acquisition, after reassessment, is recognised immediately in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

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.

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 statement of comprehensive income in the year in which the item is derecognised.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis.

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 until such time as 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 in the consolidated statement of financial position 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 to the net carrying amount on initial recognition.

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

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss (comprising foreign exchange linked notes), available-for-sale investments 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.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (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 the end of the reporting period. 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.

For financial assets, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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.

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (other than goodwill and financial assets)

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

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

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

	2009 RMB'000	2008 RMB'000
Financial assets		
Financial assets at fair value through profit or loss		
– Held for trading	**6,322**	–
– Designated as fair value through profit or loss	**–**	80,923
Loans and receivables (including cash and cash equivalents)	**2,439,857**	1,851,487
Financial liabilities		
Financial liabilities at fair value through profit or loss		
– Held for trading	**2,912**	–
Amortised cost	**646,233**	545,037

Financial risk management objectives and policies

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

Market risk

Currency risk

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

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 United States Dollars ("US$") in group companies with Hong Kong Dollars ("HK$") as its functional currency because HK$ is pegged to US$, are as follows:

	Assets		Liabilities	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
US$	**1,347,619**	623,289	**491,714**	111,273
Japanese Yen	**29,085**	20,293	**1,881**	18,659
EURO	**237,901**	208,961	**76,050**	417
HK$	**717,543**	564	**867**	1,168

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

Sensitivity analysis

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

	Impact	
	2009	2008
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
US$	**(42,795)**	(20,872)
Japanese Yen	**(1,360)**	(82)
EURO	**(8,093)**	(3,524)
HK$	**(35,834)**	30

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.

Other price risk

The Group is exposed to other price risk on its outstanding foreign currency forward contracts.

Sensitivity analysis

If forward rates between US$ against the Euro increases by 5%, while all other variables are held constant, the profit for the year would decrease by RMB170,000. For a 5% weakening of the US$ forward rates against the Euro, there would be an equal and opposite impact on the profit of the Group.

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 26) and bank balances and deposits (see note 24). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 24). The management considers the Group's exposure on the variable-rate bank loans and bank balances and deposits and fixed rate bank deposits to interest rate risk is not significant as they have a short maturity period.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated the fluctuation of 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 end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank loans at the end of the reporting period was the amount outstanding for the whole year. The sensitivity analysis have excluded certain bank balances which are not interest sensitive.

If interest rates had been 15 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2009 would increase/decrease by RMB1,420,000 (2008: RMB3,711,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

Credit risk

As at 31st December, 2009 and 2008, 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 statement of financial position.

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

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

The credit risk on loan receivable as disclosed in note 19, was concentrated to one counterparty. Management considers, based on the strong financial background of the counterparty, there was no significant credit risk.

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

Credit risk is concentrated as 12.90% (2008: 9.30%) and 32.62% (2008: 32.63%) of the total trade receivables are due from the Group's largest customer and the five largest customers within the Group's acoustic related business. 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:

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31st December, 2009					
Non-derivative financial liabilities					
Non-interest bearing	–	5,026	454,112	459,138	459,138
Variable interest rate	1.12%	–	187,313	187,313	187,095
		5,026	641,425	646,451	646,233
Derivatives – gross settlement					
Foreign exchange forward contracts					
– inflow		–	450,475	450,475	
– outflow		–	(431,072)	(431,072)	
		–	19,403	19,403	3,410
At 31st December, 2008					
Financial liabilities					
Non-interest bearing	–	5,443	339,299	344,742	344,742
Variable interest rate	3.37%	–	203,523	203,523	200,295
		5,443	542,822	548,265	545,037

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.

The fair value of foreign currency forward contracts as at 31st December, 2009 is derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners 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. SEGMENT INFORMATION

The Group has adopted IFRS 8 "Operating segments" with effect from 1st January, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the Chief Executive Officer ("CEO").

The Group determines its operating segments based on the internal reports reviewed by the CEO that are used to make strategic decisions.

As a result of the adoption of IFRS 8, the identification of the Group's reportable segments has changed. In prior years, segment information reported externally was analysed on the basis of location of customers, irrespective of the origin of the goods. However, information reported to the CEO for the purpose of resource allocation and assessment of performances focuses more specifically on the type of products sold. Therefore, on adoption of IFRS 8, management has identified the following reportable segments: dynamic components (including receivers and polyphonic speakers), microphones, headsets and other products (including transducers and vibrators), which represents the major types of products manufactured and sold by the Group.

Information regarding these segments is presented below. The segment information reported for the prior period have been restated to conform with the requirements of IFRS 8.

6. SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue and results by operating segments is as follows:

	2009 RMB'000	2008 RMB'000
Operating segments		
Segment revenue		
Dynamic components	**1,678,396**	1,638,564
Microphones	**137,274**	154,885
Headsets	**221,812**	292,431
Other products	**165,661**	170,142
Group revenue	**2,203,143**	2,256,022
Segment results		
Dynamic components	**888,463**	781,584
Microphones	**22,139**	39,861
Headsets	**57,734**	63,299
Other products	**20,753**	55,741
Total profit for operating segments	**989,089**	940,485
Unallocated amounts:		
Interest income	**15,646**	29,743
Finance costs	**(4,035)**	(10,026)
Research and development costs	**(159,105)**	(123,418)
Administrative expenses	**(103,200)**	(120,254)
Distribution and selling expenses	**(79,540)**	(103,017)
Other income	**19,983**	35,752
Other expenses	**(2,364)**	(33,024)
Profit before taxation	**676,474**	616,241

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the CEO for review.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administration costs, research and development costs, distribution and selling expenses and other income. This is the measure reported to the CEO for the purpose of resource allocation and performance assessment.

Over 90% of the Group's non-current assets other than financial instruments were located in the PRC, the place of dominate of the relevant group entities that holds those assets.

6. SEGMENT INFORMATION (CONTINUED)

The Group's revenue from external customers analysed by their geographic locations are detailed below:

	2009 RMB'000	2008 RMB'000
Greater China* (countries of domicile)	**391,515**	404,037
Other foreign countries:		
Other Asian countries	**109,076**	130,671
America	**611,286**	833,146
Europe	**1,091,266**	888,168
	2,203,143	2,256,022

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

The geographical information of the Group's revenue from external customer by individual significant countries in Europe is not available and in the opinion of management the cost to develop would be excessive.

During the year, the aggregate amount of revenue derived from the Group's top 3 customers which individually has contributed to over 10% of the Group's revenue, amounted to RMB1,429,411,000 (2008: RMB1,309,391,000). No disclosure of the total amount of revenue by each customer is disclosed, as in the opinion of the Directors such disclosure is harmful to the Group's business.

7. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank borrowings wholly repayable within five years	**4,035**	10,086
Less: Interest capitalised in construction in progress	**–**	(60)
	4,035	10,026

8. PROFIT BEFORE TAXATION

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 9)	**4,403**	3,564
Other staff's retirement benefits scheme contributions	**21,130**	25,103
Other staff costs	**390,324**	522,097
Total staff costs	**415,857**	550,765
Less: Staff costs included in research and development costs	**(57,388)**	(51,140)
	358,469	499,625
Depreciation	**163,055**	126,126
Less: Depreciation included in research and development costs	**(31,159)**	(17,225)
	131,896	108,901
Amortisation of development expenditure, included in cost of goods sold	**6,871**	6,647
Allowance for bad and doubtful debts	**1,481**	6,068
Auditor's remuneration	**1,850**	2,028
Cost of inventories recognised as expense	**1,214,054**	1,315,537
Loss on disposal of property, plant and equipment	**883**	4,840
Net exchange loss	**–**	17,407
Operating lease rentals in respect of		
– building premises	**26,245**	18,880
– prepaid lease payments	**1,801**	1,295
– equipment	**361**	–
and after crediting:		
Discount on acquisition of additional interests in a subsidiary	**–**	2,477
Government subsidies*	**7,061**	30,862
Net exchange gain	**1,390**	–
Interest income	**15,646**	29,743
Rental income	**1,017**	–
Reversal of allowance for bad and doubtful debts	**1,146**	1,865

* The amount mainly represents the incentive subsidies granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff and for reinvestment in its PRC subsidiaries. All the grants were approved and received during the year of recognition.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Benjamin Pan Zhengmin RMB'000	Ingrid Wu Chunyuan RMB'000	Mok Joe Kuen Richard RMB'000	Pei Kang RMB'000	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Dick Mei Chang RMB'000	Total RMB'000
31st December, 2009									
Fees	–	171	230	171	410	73	62	143	1,260
Salaries and other benefits	2,733	–	410	–	–	–	–	–	3,143
Total directors' emoluments	2,733	171	640	171	410	73	62	143	4,403
31st December, 2008									
Fees	–	98	129	84	146	–	–	111	568
Salaries and other benefits	2,996	–	–	–	–	–	–	–	2,996
Total directors' emoluments	2,996	98	129	84	146	–	–	111	3,564

Employees' emoluments

The five highest paid individuals included one (2008: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2008: four) highest paid individuals are as follows:

	2009 RMB'000	2008 RMB'000
Employees		
– basic salaries and allowances	**3,614**	3,743
– bonus	**2,726**	6,112
– retirement benefits scheme contributions	**29**	238
	6,369	10,093

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

The emoluments were within the following bands:

	Number of employees 2009	2008
HK$1,000,000 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**1**	2
HK$4,000,001 to HK$4,500,000	**–**	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. In 2008, one director waived emoluments of RMB84,000 (2009: nil).

10. TAXATION

	2009 RMB'000	2008 RMB'000
The current tax charge comprises:		
PRC income tax	**51,928**	25,183
Tax of other jurisdictions	**11,183**	914
Under(over)provision of taxation in prior years	**3,563**	(459)
	66,674	25,638

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 2012.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain of the Group's PRC subsidiaries has changed to 25% from 1st January, 2008 onwards. The relevant deferred tax balance had been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Taxation in other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

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

	2009 RMB'000	2008 RMB'000
Profit before taxation	**676,474**	616,241
Tax at the applicable income tax rate (Note)	**169,119**	154,060
Tax effect of income not taxable for tax purposes	**(6,103)**	(10,215)
Tax effect of expenses not deductible for tax purposes	**5,459**	18,179
Tax effect of Tax Holiday	**(101,837)**	(136,077)
Tax effect of tax losses not recognised	**113**	4,758
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,742)**	(6,063)
Under(over)provision in prior years	**3,563**	(459)
Others	**(898)**	1,455
Tax charge for the year	**66,674**	25,638

Note: The PRC Enterprise Income Tax rate of 25% (2008: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

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

11. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 final dividend of HK10.9 cents per ordinary share	117,990	–
2009 interim dividend of HK7.2 cents (2008: Nil) per ordinary share	77,886	–
	195,876	–

Subsequent to end of the reporting period, 2009 proposed final dividend of HK15.5 cents (2008: HK10.9 cents) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2009 is based on the profit for the year attributable to owners of the Company of RMB614,957,000 (2008: RMB590,434,000) and on the weighted average number of ordinary shares of 1,228,000,000 shares in issue during the year (2008: 1,229,711,497 shares).

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1st January, 2008	108,451	163,163	16,702	16,400	617,357	115,987	1,038,060
Currency realignment	(71)	(578)	(45)	(14)	(491)	–	(1,199)
Additions	14,098	47,121	8,205	1,932	217,222	264,725	553,303
Acquisition of a subsidiary/business	22,482	3,539	–	122	23,909	45,371	95,423
Disposals	(39,319)	(2,114)	(4,343)	(2,453)	(5,580)	(22,585)	(76,394)
Transfers	47,559	4,166	32,241	–	74,499	(158,465)	–
At 31st December, 2008	153,200	215,297	52,760	15,987	926,916	245,033	1,609,193
Currency realignment	103	116	7	21	141	–	388
Additions	10,910	25,445	31,958	1,537	93,750	74,952	238,552
Disposals	–	(631)	–	(71)	(239)	(640)	(1,581)
Transfers	98,293	5,131	27,799	–	68,437	(199,660)	–
At 31st December, 2009	262,506	245,358	112,524	17,474	1,089,005	119,685	1,846,552
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2008	9,551	58,712	2,972	5,578	127,436	–	204,249
Currency realignment	(1)	(67)	(2)	(1)	(97)	–	(168)
Provided for the year	8,245	30,104	8,813	2,843	76,121	–	126,126
Eliminated on disposals	(2,602)	(1,990)	(1,636)	(1,693)	(2,449)	–	(10,370)
At 31st December, 2008	15,193	86,759	10,147	6,727	201,011	–	319,837
Currency realignment	7	72	6	8	95	–	188
Provided for the year	10,254	37,798	19,705	2,748	92,550	–	163,055
Eliminated on disposals	–	(539)	–	(64)	(95)	–	(698)
At 31st December, 2009	25,454	124,090	29,858	9,419	293,561	–	482,382
CARRYING VALUES							
At 31st December, 2009	237,052	121,268	82,666	8,055	795,444	119,685	1,364,170
At 31st December, 2008	138,007	128,538	42,613	9,260	725,905	245,033	1,289,356

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

In 2008, bank interest of RMB60,000 (2009: nil) was capitalised under construction in progress.

14. GOODWILL

	RMB'000
COST	
At 1st January, 2008	3,655
Arising on acquisition of a subsidiary	1,750
At 31st December, 2008 and 31st December, 2009	5,405

The goodwill acquired in business combination was allocated to each individual subsidiary which management considers represent separate cash generating units ("CGUs"). At the end of the reporting period, the carrying amount of goodwill were arisen from the acquisition of the following subsidiaries:

	2009 & 2008 RMB'000
AAC Wireless Technologies AB	3,655
北京東微世紀科技有限公司 ("Beijing Technology")	1,750
	5,405

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

15. 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.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2009 **RMB'000**	2008 RMB'000
Unlisted shares, at cost	**27,676**	–

In the current year, the Group acquired a 16.7% equity interest in a private limited liability company incorporated in Finland, engaged in the business of applications of micro and nano technologies for a consideration of RMB27,676,000. The investment is measured at cost less impairment, as the fair value cannot be reliably measured.

17. INTANGIBLE ASSETS

	Development expenditure RMB'000
COST	
At 1st January, 2008	36,375
Additions	4,041
At 31st December, 2008	40,416
Additions	4,453
At 31st December, 2009	44,869
AMORTISATION	
At 1st January, 2008	4,643
Charge for the year	6,647
At 31st December, 2008	11,290
Charge for the year	6,871
At 31st December, 2009	18,161
CARRYING VALUE	
At 31st December, 2009	26,708
At 31st December, 2008	29,126

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

18. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**86,414**	118,074
Work in progress	**30,181**	33,229
Finished goods	**113,611**	144,459
	230,206	295,762

19. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**642,471**	455,861
Bank acceptance bills	**1,933**	1,326
	644,404	457,187
Advance payment to suppliers	**35,400**	16,301
Loan receivable	**–**	50,000
Other receivables and prepayments	**49,358**	39,642
	729,162	563,130

The loan receivable was a loan advanced by the Group to an independent third party. The loan bore interest at 4.7% per annum, is unsecured and was settled during the year. Other receivables are unsecured, interest-free and is repayable on demand. In the opinion of the directors, the other receivables and loan receivables are recoverable within one year from the end of the reporting period.

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 180 days at the end of the credit terms in lieu of immediate cash payment. The following is an aged analysis of trade receivables and bank acceptance bills presented based on the invoice date or date of the bills at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
Age		
Not yet due	**517,821**	387,247
Overdue 0 – 90 days	**124,596**	66,028
Overdue 91 – 180 days	**516**	3,052
Overdue over 180 days	**1,471**	860
	644,404	457,187

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 RMB126,583,000 (2008: RMB 69,940,000) which are past due at the end of the reporting period for which the Group has not provided for allowances. The Group based on historical experience considers the amounts which have past due and which allowances has not been provided to be of good credit quality and are generally recoverable. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2009 RMB'000	2008 RMB'000
Overdue 0 – 90 days	**124,596**	66,028
Overdue 91 – 180 days	**516**	3,052
Overdue over 180 days	**1,471**	860
Total	**126,583**	69,940

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

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**9,741**	5,685
Currency realignment	**3**	(147)
Allowance for bad and doubtful debts	**1,481**	6,068
Reversal of allowance for bad and doubtful debts	**(1,146)**	(1,865)
Balance at end of the year	**10,079**	9,741

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

The Group's trade receivables which are denominated in currencies other than the functional currencies of the relevant group entities excluding balances which are denominated in US$ in group companies with HK$ as its functional currency because HK$ is pegged to US$ are set out below:

	2009 RMB'000	2008 RMB'000
US$	**21,309**	17,957
EURO	**144,163**	43,105
Japanese Yen	**5,553**	20,177

20. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount was unsecured, interest-free and was fully settled during the year.

21. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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

Name of related company	Balance at 31.12.2009 RMB'000	Balance at 1.1.2009 RMB'000	Maximum amount outstanding during the year RMB'000
深圳市遠宇實業有限公司	19,024	19,024	19,024
常州遠宇精密模具製造有限公司	–	128	128
常州來方圓有限公司	156	–	156
	19,180	19,152	

The above amounts are unsecured, interest-free and are repayable on demand. The amount due from 深圳市遠宇實業有限公司 was resulted from acquisition of a subsidiary during 2008, see note 29(a).

In the opinion of the directors, the amounts are recoverable within one year.

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

22. FOREIGN EXCHANGE LINKED NOTES

	2009 RMB'000	2008 RMB'000
US$5 million principal protected linked note	–	41,815
US$5 million autocallable linked note	–	39,108
At 31st December	–	80,923

In September 2006, the Group acquired a 3 year US$5 million unsecured, interest-free principal protected linked note (the "Note"), which matured on 13th October, 2009 (the "Note Maturity Date") from an independent investment bank (the "Investment Bank"). On the Note Maturity Date the Note was redeemed at 100% plus a variable redemption amount which was determined based on the exchange rate of RMB to US$, 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).

22. FOREIGN EXCHANGE LINKED NOTES (CONTINUED)

In December 2006, the Group acquired a 3 year US$5 million unsecured, interest-free autocallable linked note (the "Callable Note"), which matured on 29th December, 2009 (the "Maturity Date") from the Investment Bank. On the Maturity Date the Callable Note was redeemed at 100% plus a variable redemption amount which was determined based on the exchange rate of RMB to US$, 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 were 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). During the year, the Note and Callable Note were fully redeemed for an aggregate amount of RMB80,953,000.

23. FOREIGN CURRENCY FORWARD CONTRACTS

Details of the foreign currency forward contracts entered by the Group with certain banks during the year and outstanding as at 31st December, 2009 (the "Forward Contracts") are as follows:

Description	**Settlement date**	**Exchange rates**
9 contracts to sell in aggregate Euro 44 million for US$	Settled monthly on various dates from 20th January, 2009 until 25th May, 2011	At exchange rates ranging from US$1.354 to US$1.580 for Euro 1

At any time prior to maturity of the Forward Contracts, if the spot rate between the US$ and Euro falls below an agreed rate, the Forward Contracts will be automatically terminated. The Forward Contracts are not designated and effective as a hedging instrument. Therefore, the fair value gains or losses are recognised in profit or loss in the period in which they arise. At 31st December, 2009, the fair value of the Forward Contracts are determined by the respective issuing banks with reference to forward rates.

24. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits and bank balances carry variable and fixed interest rates ranging from 0% to 4.14% (2008: 0% to 4.14%). The restricted bank deposits are pledged to banks to secure letters of credit and the notes payables as set out in note 25.

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, excluding balances which are denominated in US$ in group companies with HK$ as its functional currency because HK$ is pegged to US$, are set out below:

	2009 RMB'000	2008 RMB'000
US$	**482,800**	114,019
HK$	**184**	486
Japanese Yen	**6,831**	1
Euro	**18,845**	28,010

25. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	200,683	168,156
Notes payables – secured	135,090	58,209
	335,773	226,365
Payroll and welfare payables	86,875	67,909
Consideration payable for acquisition of subsidiaries	–	2,040
Other payables and accruals	59,312	69,452
	481,960	365,766

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

An aged analysis of trade payables, presented based on the invoice date, and notes payables is as follows:

	2009 RMB'000	2008 RMB'000
Age		
Not yet due	332,312	220,921
Overdue 0 – 90 days	1,878	159
Overdue 91 – 180 days	144	82
Overdue over 180 days	1,439	5,203
	335,773	226,365

The Group's trade payables which are denominated in currencies other than the functional currencies of the relevant group entities, excluding balances which are denominated in US$ in group companies with HK$ as its functional currency because HK$ is pegged to US$, are set out below:

	2009 RMB'000	2008 RMB'000
US$	1,556	205
HK$	17	453
Japanese Yen	1,883	18,631
EUR	398	416

26. SHORT-TERM BANK LOANS

The short-term bank loans are denominated in US$, which is not the functional currency of the relevant group entities holding such short-term bank loans, are unsecured and carry interest ranging from 0.2366% to 0.38% per annum over London Inter-bank Offered Rate ("LIBOR") (as at 31st December, 2008: from 0.8% to 1.25% per annum over LIBOR).

27. 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, 31st December, 2008 and 31st December, 2009	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 31st December, 2008 and 31st December, 2009	1,228,000,000	12,280

	RMB'000
Shown in the statement of financial position at 1st January, 2008	100,530
Shares repurchased and cancelled	(812)
At 31st December, 2008 and 31st December, 2009	99,718

In 2008, the Company repurchased its own shares through the Stock Exchange as follows:

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

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

28. 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.

29. ACQUISITION OF A SUBSIDARY/BUSINESS

(a) Acquisition of a subsidiary

In 2008, 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 certain companies in which close family members of certain substantial shareholders have beneficial interest. Total consideration paid for the acquisition was RMB120,000,000 which was determined based on the book value of the net assets of Shenzhen Meiou at the date of acquisition. At date of acquisition, Shenzhen Meiou was not engaged in any business activity and therefore the acquisition was accounted for as acquisition of assets and assumed liabilities.

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

29. ACQUISITION OF A SUBSIDARY/BUSINESS (CONTINUED)

(a) Acquisition of a subsidiary (continued)

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

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

(b) Acquisition of a business

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

	RMB'000
Net assets acquired:	
Property, plant and equipment	226
Inventories	687
Trade and other receivables	392
Bank balances and cash	4
Trade and other payables	(608)
	701
Minority interests	(701)
Goodwill	1,750
	1,750

29. ACQUISITION OF A SUBSIDARY/BUSINESS (CONTINUED)

(b) Acquisition of a business (continued)

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration	1,750
Balance of consideration payable to a third party	(800)
Cash and cash equivalents acquired	(4)
Net outflow of cash and cash equivalents arising on acquisition	946

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

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

Beijing Technology contributed a profit of RMB238,000 for the period from the date of acquisition to 31st December, 2008.

If the acquisition had been completed on 1st January, 2008, based on the unaudited management accounts of the subsidiary, the impact on the Group's revenue and profit for the year ended 31st December, 2008 would have been insignificant.

30. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of its entire interests in AACE to the minority shareholder of AACE for an aggregate consideration of RMB8,884,000. The net assets at the date of disposal were as follows:

	RMB'000
Amounts due from related parties	7,566
Bank balances and cash	1
	7,567
Minority interests	(3,027)
Translation reserve released upon disposal	2,971
Gain on disposal	1,373
Total consideration	8,884
Satisfied by:	
Cash	1,367
Balance of consideration receivable from the minority shareholder	7,517
	8,884

30. DISPOSAL OF A SUBSIDIARY (CONTINUED)

	RMB'000
Net cash inflow arising on disposal:	
Cash consideration	1,367
Bank balances and cash disposed of	(1)
	1,366

During the year, AACE contributed a loss of RMB6,844,000 to the Group's profit for the year.

31. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Equipment		Building premises	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Within one year	**84**	–	**13,118**	13,708
In the second to fifth year inclusive	**307**	–	**8,263**	10,348
	391	–	**21,381**	24,056

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

32. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**43,112**	49,535

33. 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.

34. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	**31,525**	12,125
	Property rentals paid	**6,165**	6,967
	Purchase of property, plant and equipment	**–**	445
	Sales of raw materials	**1,627**	109
Close family members of the directors of the Company	Property rentals paid	**2,576**	1,681
Substantial shareholders	Property rentals paid	**567**	573

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 20 and 21 to the consolidated financial statements.

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2008 and 31st December, 2009, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (note a)	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
AAC Acoustic Technologies Limited	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
AAC Technologies Pte. Ltd	Singapore	Shares –SGD500,000	Sale of acoustic related products
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (note b)	PRC	Registered capital – US$28,000,000	Manufacture and sales of acoustic products, research and development

35. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (note c)	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 d)	PRC	Registered capital – US$59,800,000	Manufacture and sales of digital cameras and its accessories, electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (note e)	PRC	Registered capital – US$21,500,000	Manufacture and sales of precision components and acoustic products, research and development
瑞聲精密制造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (note f)	PRC	Registered capital – US$49,800,000	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 g)	PRC	Registered capital – RMB1,000,000	Provision of electroplating service
YEC Electronics Limited	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products

Notes:

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

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

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

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

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

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

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

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, 2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009 RMB'000**
RESULTS					
Revenue	1,073,744	1,773,371	1,952,212	2,256,022	**2,203,143**
Profit before taxation	353,592	600,032	597,978	616,241	**676,474**
Taxation	(20,271)	(31,515)	(49,936)	(25,638)	**(66,674)**
Profit for the year	333,321	568,517	548,042	590,603	**609,800**
Attributable to:					
Owners of the Company	332,859	570,314	551,133	590,434	**614,957**
Minority interests	462	(1,797)	(3,091)	169	**(5,157)**
	333,321	568,517	548,042	590,603	**609,800**

	As at 31st December, 2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009 RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,791,921	2,542,223	3,211,748	3,704,217	**4,253,666**
Total liabilities	(253,478)	(417,175)	(623,773)	(589,014)	**(718,909)**
Net assets	1,538,443	2,125,048	2,587,975	3,115,203	**3,534,757**
Attributable to owners of the Company	1,538,443	2,111,135	2,577,336	3,107,768	**3,534,376**
Minority interests	–	13,913	10,639	7,435	**381**
	1,538,443	2,125,048	2,587,975	3,115,203	**3,534,757**