

Interim Report



**AAC Technologies Holdings Inc.**  
**瑞聲科技控股有限公司**

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



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Benjamin Zhengmin Pan  
(Chief Executive Officer)  
Mr. Mok Joe Kuen Richard

### Non-executive Director

Ms. Ingrid Chunyuan Wu

### Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman)  
Mr. Poon Chung Yin Joseph  
Dato' Tan Bian Ee  
Ms. Chang Carmen I-Hua

## COMPANY SECRETARY

Mr. Lo Tai On

## AUDIT COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)  
Mr. Koh Boon Hwee  
Ms. Ingrid Chunyuan Wu

## REMUNERATION COMMITTEE

Mr. Koh Boon Hwee (Chairman)  
Dato' Tan Bian Ee  
Ms. Chang Carmen I-Hua

## NOMINATION COMMITTEE

Dato' Tan Bian Ee (Chairman)  
Mr. Poon Chung Yin Joseph  
Ms. Chang Carmen I-Hua

## AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan  
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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2003, 20th Floor  
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

Bank of Communications, Wujin Sub-branch  
Bank of China, Wujin Sub-branch  
The Hongkong and Shanghai Banking Corporation  
Limited, Hung Hom Branch

## STOCK CODE

02018

## WEBSITE

[www.aactechnologies.com](http://www.aactechnologies.com)

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2012

The board (the "Board") of directors (the "Director(s)") of AAC Technologies Holdings Inc. (the "Company" or "AAC") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2012 together with the unaudited comparative figures for the corresponding period in 2011. These condensed consolidated financial statements have not been audited, but have been reviewed by the auditor, Deloitte Touche Tohmatsu, and the Company's audit committee (the "Audit Committee") and approved by the Board on 24th August, 2012.

	NOTES	1.1.2012 to 30.6.2012 (Unaudited) RMB'000	1.1.2011 to 30.6.2011 (Unaudited) RMB'000
Revenue	3	2,589,163	1,882,114
Cost of goods sold		(1,463,501)	(1,061,144)
Gross profit		1,125,662	820,970
Other income		22,219	35,031
Net fair value loss on foreign currency forward contracts		(91)	(15,472)
Distribution and selling expenses		(75,947)	(69,451)
Administrative expenses		(88,287)	(71,578)
Research and development costs		(193,113)	(142,090)
Share of results of associates		(16,230)	(3,397)
Exchange (loss) gain		(1,040)	1,513
Gain on deemed disposal of partial interest in an associate	4	33,362	-
Finance costs		(4,844)	(2,396)
Profit before taxation	5	801,691	553,130
Taxation	6	(84,513)	(44,660)
Profit for the period		717,178	508,470
Other comprehensive expense:			
Exchange differences arising from translation		(203)	(5,233)
Total comprehensive income for the period		716,975	503,237
Profit (loss) for the period attributable to:			
Owners of the Company		720,298	509,261
Non-controlling interests		(3,120)	(791)
		717,178	508,470
Total comprehensive income and expense for the period attributable to:			
Owners of the Company		719,708	503,883
Non-controlling interests		(2,733)	(646)
		716,975	503,237
Earnings per share – Basic	8	RMB58.66 cents	RMB41.47 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2012

	NOTES	30.6.2012 (Unaudited) RMB'000	31.12.2011 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	9	3,151,491	2,697,120
Goodwill		11,803	11,803
Prepaid lease payments		114,247	109,290
Deposits for acquisition of property, plant and equipment		159,943	123,428
Available-for-sale investment		3,254	3,254
Interests in associates		199,014	181,882
Intangible assets		157,557	162,144
		<b>3,797,309</b>	3,288,921
Current assets			
Inventories		689,156	558,780
Trade and other receivables	10	1,822,878	1,487,575
Foreign currency forward contracts		–	1,139
Taxation recoverable		2,840	2,868
Pledged bank deposits		6,855	874
Bank balances and cash		1,211,073	1,374,069
		<b>3,732,802</b>	3,425,305
Current liabilities			
Trade and other payables	11	1,115,683	898,742
Amounts due to related companies		13,945	19,656
Taxation payable		82,706	77,475
Foreign currency forward contracts		410	65
Short-term bank loans	12	1,003,296	891,128
		<b>2,216,040</b>	1,887,066
Net current assets		<b>1,516,762</b>	1,538,239
Total assets less current liabilities		<b>5,314,071</b>	4,827,160
Non-current liabilities			
Deferred tax liabilities		15,329	15,738
Net assets		<b>5,298,742</b>	4,811,422
Capital and reserves			
Share capital	13	99,718	99,718
Reserves		5,144,419	4,650,352
Equity attributable to owners of the Company		<b>5,244,137</b>	4,750,070
Non-controlling interests		54,605	61,352
Total equity		<b>5,298,742</b>	4,811,422

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2012

	Attributable to owners of the Company										
	Share capital	Share premium	Special reserve	Capital reserve	Translation reserve	Non-distributable reserve	PRC statutory reserves	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2011 (audited)	99,718	746,957	1,135	23,391	(48,116)	87,245	160,511	3,103,704	4,174,545	1,346	4,175,891
Exchange differences arising from translation	-	-	-	-	(5,378)	-	-	-	(5,378)	145	(5,233)
Profit for the period	-	-	-	-	-	-	-	509,261	509,261	(791)	508,470
Total comprehensive (expense) income for the period	-	-	-	-	(5,378)	-	-	509,261	503,883	(646)	503,237
Dividends paid	-	-	-	-	-	-	-	(242,025)	(242,025)	-	(242,025)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	23,238	23,238
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	3,300	3,300
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(462)	(462)	203	(259)
At 30th June, 2011 (unaudited)	99,718	746,957	1,135	23,391	(53,494)	87,245	160,511	3,370,478	4,435,941	27,441	4,463,382
At 1st January, 2012 (audited)	99,718	746,957	1,135	23,391	(67,019)	87,245	165,337	3,693,306	4,750,070	61,352	4,811,422
Exchange differences arising from translation	-	-	-	-	(590)	-	-	-	(590)	387	(203)
Profit for the period	-	-	-	-	-	-	-	720,298	720,298	(3,120)	717,178
Total comprehensive (expense) income for the period	-	-	-	-	(590)	-	-	720,298	719,708	(2,733)	716,975
Dividends paid	-	-	-	-	-	-	-	(216,228)	(216,228)	-	(216,228)
Acquisition of additional interest in subsidiaries (Note)	-	-	-	-	-	-	-	(9,413)	(9,413)	(4,014)	(13,427)
At 30th June, 2012 (unaudited)	99,718	746,957	1,135	23,391	(67,609)	87,245	165,337	4,187,963	5,244,137	54,605	5,298,742

Note: During the period, the Group acquired additional interests in a non-wholly owned subsidiary of the Company. As a result of the acquisition, the difference of RMB9,413,000 between the consideration paid of RMB13,427,000 and the amount of non-controlling interests of RMB4,014,000 acquired was directly recognised in equity. The Group's equity interest in the subsidiary has been increased from 70.9% to 81.3% after the acquisition.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2012

	1.1.2012 to 30.6.2012 (Unaudited) RMB'000	1.1.2011 to 30.6.2011 (Unaudited) RMB'000
Net cash from operating activities	<b>609,541</b>	554,710
Net cash used in investing activities		
Purchase of property, plant and equipment	<b>(480,261)</b>	(325,497)
Addition of prepaid lease payments	<b>(6,137)</b>	(365)
Deposits paid for acquisition of property, plant and equipment	<b>(159,943)</b>	(163,005)
Proceeds from disposal of property, plant and equipment	<b>259</b>	229
Acquisition of available-for-sale investments	-	(3,254)
Acquisition of a subsidiary	-	(39,415)
Investment in an associate	-	(5,000)
Other investing cash flows	<b>(1,382)</b>	6,571
	<b>(647,464)</b>	(529,736)
Net cash used in financing activities		
Short-term loans raised	<b>1,571,474</b>	1,044,525
Repayment of short-term loans	<b>(1,462,518)</b>	(856,310)
Acquisition of additional interests in a subsidiary	<b>(13,427)</b>	(259)
Capital contribution from non-controlling interests	-	3,300
Dividends paid	<b>(216,228)</b>	(242,025)
Other financing cash flows	<b>(4,844)</b>	(2,396)
	<b>(125,543)</b>	(53,165)
Net decrease in cash and cash equivalents	<b>(163,466)</b>	(28,191)
Cash and cash equivalents at 1st January	<b>1,374,069</b>	1,734,609
Effect of foreign exchange rate changes	<b>470</b>	(2,759)
Cash and cash equivalents at 30th June, represented by bank balances and cash	<b>1,211,073</b>	1,703,659

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to the International Financial Reporting Standards ("IFRSs") that are mandatorily effective for the current interim period. The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. SEGMENT INFORMATION

Operating and reportable segments are 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 segments, assess their performance and make strategic decisions. The chief operating decision maker of the Group has been identified as the Chief Executive Officer ("CEO").

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. The Group's operating and reportable segments under IFRS 8 are dynamic components (mainly including speaker boxes, receivers and polyphonic speakers), microphones, headsets and other products (mainly including vibrators), which represent the major types of products manufactured and sold by the Group.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2012 to 30.6.2012 RMB'000 (Unaudited)	1.1.2011 to 30.6.2011 RMB'000 (Unaudited)
<b>Operating and reportable segments</b>		
Segment revenue		
Dynamic components	2,000,765	1,492,500
Microphones	346,132	175,370
Headsets	44,572	90,366
Other products	197,694	123,878
	<u>2,589,163</u>	<u>1,882,114</u>
Revenue		
Segment results		
Dynamic components	939,091	721,943
Microphones	129,484	61,554
Headsets	5,788	11,926
Other products	51,299	25,547
	<u>1,125,662</u>	<u>820,970</u>
Total profit for operating and reportable segments		
– gross profit	1,125,662	820,970
Unallocated amounts:		
Interest income	8,425	14,599
Other income	13,794	20,432
Net fair value loss on foreign currency forward contracts	(91)	(15,472)
Distribution and selling expenses	(75,947)	(69,451)
Administrative expenses	(88,287)	(71,578)
Research and development costs	(193,113)	(142,090)
Share of results of associates	(16,230)	(3,397)
Exchange (loss) gain	(1,040)	1,513
Gain on deemed disposal of partial interest in an associate	33,362	–
Finance costs	(4,844)	(2,396)
	<u>801,691</u>	<u>553,130</u>
Profit before taxation		

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

Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administrative expenses, research and development costs, distribution and selling expenses, other income, share of results of associates, exchange (loss) gain, net fair value loss on foreign currency forward contracts and gain on deemed disposal of partial interest in an associate.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 4. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN AN ASSOCIATE

During the period, an associate of the Company issued new shares to other shareholders resulting in a dilution of the Group's equity interest in the associate from 26.7% to 20.5%. In spite of the dilution, because of the premium of the new shares issued, the Group's share of net assets in the associate increased from RMB67,709,000 to RMB101,071,000 and the increase in share of net assets of the associate was recognised in profit and loss as a gain on deemed disposal of partial interest in an associate.

## 5. PROFIT BEFORE TAXATION

	1.1.2012 to 30.6.2012 RMB'000 (Unaudited)	1.1.2011 to 30.6.2011 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	8,255	6,778
Allowance for obsolete inventories, included in cost of goods sold	3,461	-
Depreciation	148,890	109,876
Loss on disposal of property, plant and equipment, net	307	5,713

## 6. TAXATION

	1.1.2012 to 30.6.2012 RMB'000 (Unaudited)	1.1.2011 to 30.6.2011 RMB'000 (Unaudited)
The charge comprises:		
PRC Income Tax	68,979	23,430
Overseas taxation	15,534	21,230
	<b>84,513</b>	44,660

Under the law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries are entitled to exemption from PRC Enterprise income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years ("Tax Holiday"). The Tax Holiday will expire by the end of 2012.

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 7. DIVIDENDS

During the current interim period, a final dividend in respect of the year ended 31st December, 2011 of HK21.6 cents (2010 final dividend in respect of the year ended 31st December, 2010: HK23.7 cents) per share was paid to shareholders. The aggregate amount of the final dividend declared and paid in the interim period amounted to Hong Kong Dollars 265,248,000 (approximately RMB216,228,000).

Subsequent to the end of the interim period, the Directors have determined that an interim dividend of HK20.0 cents per share (2011 interim dividend: HK20.0 cents) will be paid to the shareholders of the Company.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2012 is based on the profit for the period attributable to owners of the Company of RMB720,298,000 (for the six months ended 30th June, 2011: RMB509,261,000) and on the 1,228,000,000 (for the six months ended 30th June, 2011: 1,228,000,000) number of shares in issue during the period.

No diluted earnings per share are presented as none of the reporting periods had any potential ordinary shares outstanding.

## 9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB604 million (for the six months ended 30th June, 2011: RMB479 million). Part of the consideration of approximately RMB123 million (for the six months ended 30th June, 2011: RMB153 million) was settled through deposits paid in prior period.

## 10. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of immediate cash payment. During the period, the Group has accepted such bills amounting to RMB60,041,000 (2011: RMB40,971,000). The following is an aged analysis of trade and bills receivables by age, presented based on the invoice date. The analysis below is net of allowance for doubtful debts.

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Age		
0-90 days	1,254,607	1,064,770
91-180 days	99,238	131,535
Over 180 days	13,152	22,878
	1,366,997	1,219,183

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date:

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Age		
0-90 days	732,869	556,916
91-180 days	106,962	78,607
Over 180 days	1,403	946
	<u>841,234</u>	<u>636,469</u>

## 12. SHORT-TERM BANK LOANS

The Group's short-term bank loans, classified by their currencies denominations, are set out below:

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
United States Dollars ("US\$")	636,522	603,596
Japanese Yen ("JPY")	366,774	287,532
	<u>1,003,296</u>	<u>891,128</u>

These loans carry interest ranging from 0.59% to 1.75% per annum (as at 31st December, 2011: carry interest ranging from 0.55% to 1.13% per annum). The Company issued guarantees to the banks to secure the borrowings.

## 13. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares at 1st January, 2012 and 30th June, 2012	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
Ordinary shares at 1st January, 2012 and 30th June, 2012	<u>1,228,000,000</u>	<u>12,280</u>
		<u>RMB'000</u>
As at 1st January, 2012 and at 30th June, 2012		<u>99,718</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

## 14. CAPITAL COMMITMENTS

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	169,109	188,521

## 15. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	1.1.2012 to 30.6.2012 RMB'000 (Unaudited)	1.1.2011 to 30.6.2011 RMB'000 (Unaudited)
Companies controlled by close family members of the substantial shareholders of the Company (Note)	Purchase of raw materials by the Group	24,564	28,546
	Property rentals paid by the Group	3,909	3,145
	Sales of raw materials by the Group	41	-
Close family members of the substantial shareholders of the Company (Note)	Property rentals paid by the Group	1,668	1,668
Substantial shareholders (Note)	Property rentals paid by the Group	262	270

Note: The substantial shareholders have a shareholding which gives them significant influence over the Company. They are also Directors of the Company.

During the period, the emoluments paid to the key management personnel of the Company, who represent the Directors of the Company, was RMB4,997,000 (for the six months ended 30th June, 2011: RMB4,333,000).

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



## TO THE BOARD OF DIRECTORS OF AAC TECHNOLOGIES HOLDINGS INC.

(incorporated in the Cayman Islands with limited liability)

### Introduction

We have reviewed the condensed consolidated financial statements of AAC Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 12, which comprises the condensed consolidated statement of financial position as of 30th June, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

### Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

24th August, 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

AAC is one of the world's foremost vertically integrated manufacturers of miniature technology components. Our Company designs, manufactures and distributes a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, vibrators, headsets, optics, antennas and ceramic products.

Our components are designed for use in mobile handsets, tablets, game consoles, ultrabooks, notebook computers and other consumer electronics devices such as electronic book-readers and MP4 players. Our innovative technology design solutions cover wide ranging applications in different markets such as mobile telecommunications, consumer electronics, home appliances, automobile and medical.

We will continue to deploy meaningful research and development resources on initiatives in the technology segments we have targeted, with the objective to develop and strengthen our intellectual property portfolio. Our management team is committed to identify and evaluate appropriate opportunities in forming alliances, investing or mergers and acquisitions in global technologies companies that will further reinforce the Company's existing technology capabilities.

## MARKET REVIEW

Consolidation in the mobile devices market continues and the market share of individual OEMs are constantly being reshuffled. However, the overall market itself continues to grow, and in particular, the smart phone and tablet segments show even stronger growth momentum, and their share of the overall market is increasing. These two segments demand enhanced built-in functionality, and the Company's design and production capabilities have allowed us to provide the high performance specifications required of the components demanded by our customers. As a result, the Company was able to deliver strong growth and financial results for the six months ended 30th June, 2012.

## FINANCIAL REVIEW

Our strong performance in the first half of this year generated RMB609.5 million in net cash flow from operations. Revenue of the Group for the six months ended 30th June, 2012 amounted to RMB2,589.2 million, an increase of RMB707.1 million, or 37.6%, compared with the first half of 2011. Gross profit of RMB1,125.7 million was RMB304.7 million, or 37.1%, higher than the first half of 2011. Profit attributable to owners of the Company amounted to RMB720.3 million, representing an increase of 41.4% from RMB509.3 million for the corresponding period of 2011. Basic earnings per share amounted to RMB58.66 cents, up 41.4% from RMB41.47 cents for 2011.

## GEARING RATIO AND INDEBTEDNESS

The gearing ratio of the Group, computed by dividing short-term bank loans by total assets, was 13.3% as at 30th June, 2012 compared with 13.3% as at 31st December, 2011.

As at 30th June, 2012, the Group had RMB1,003.3 million of short-term bank loans compared with RMB891.1 million as at 31st December, 2011.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June, 2012, the Group had RMB1,211.1 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB6.9 million. Management believes that 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 of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOREIGN EXCHANGE

Given our international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate our anticipated foreign exchange risks with appropriate foreign exchange contracts.

The Group will not enter into derivative transactions for trading or speculative purposes.

## CHARGES ON GROUP ASSETS

Except for the bank deposits amounts of RMB6.9 million and RMB0.9 million pledged to banks respectively as at 30th June, 2012 and 31st December, 2011, no other Group asset was under any charge.

## ACQUISITION OF A SUBSIDIARY

In June 2010, the Group acquired a 31.95% equity interest in Kaleido Technology ApS ("Kaleido"), a private company incorporated in Denmark and engaged in wafer-level glass molding. In accordance with the shareholders' agreement, the Company made further investment in Kaleido in March 2011 to acquire an additional 38.95% shareholding for a total consideration of DKK35.1 million (RMB43.8 million); Furthermore, the Group acquired an additional 10.4% shareholding with total consideration of DKK12.6 million (RMB13.4 million) in May 2012, thereby increasing our equity interest in Kaleido to 81.3%.

A goodwill of RMB8.7 million was attributed to the anticipated profitability arising from new distribution channels and the future Group's operating synergies.

## EMPLOYEE INFORMATION

As at 30th June, 2012, the Group employed 20,930 permanent employees. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. 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, Japan, USA and various countries in Europe.



# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Although the global economy is facing challenges, the prospects for the Company remain good because the smart phone and tablet segments of the mobile devices market are increasing their share, and these segments demand enhanced solutions which the Company's strong R&D and manufacturing capabilities are more than able to provide.

To maintain our technological edge, we continue to invest in research, in product development and in manufacturing processes (including automation). During the first half of 2012, we have successfully obtained 80 additional acoustic and non-acoustic patents, bringing our total portfolio to 730 patents. In the same period, we filed another 189 patents, which brings patents pending to a total of 480.

Our strategy for continued growth includes penetrating new customers, increasing our share of each existing customer's business, providing greater value added solutions to our customers utilizing our R&D and product development capabilities, and increasing the productivity and effectiveness of our manufacturing processes through both automation and optimization of our work flow.

We will also seek to provide components that complement our strong acoustic capabilities, and strive to develop and offer components based on optical and wireless technologies that are required by the same customers that we already serve.

## DIVIDENDS

From time to time, the Company will consider the declaration of dividends based on its financial position, results of operations, debt repayment ability, capital expenditures, 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 in general meeting. The Board may also from time to time pay to shareholders such interim dividends to be justified by the profits of the Company.

During the first half of 2012, a final dividend for the year ended 31st December, 2011 of HK21.6 cents (2010: HK23.7 cents) per share was paid to shareholders of the Company.

The Board resolved to declare the payment of an interim dividend of HK20.0 cents (2011: HK20.0 cents) per ordinary share in respect of the six months ended 30th June, 2012. The interim dividend will be payable on or around 5th October, 2012 to the shareholders of the Company, whose names appeared on the register of members of the Company on 21st September, 2012.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2012, the beneficial interests of the Directors and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (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 Directors	Capacity	Number of ordinary shares					Total number of shares	Percentage of the Company's issued share capital as at 30th June, 2012
		Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests		
Mr. Benjamin Zhengmin Pan ("Mr. Pan") <sup>(1)</sup>	Beneficial owner/interest of child under 18 and spouse/interest of controlled corporation	69,512,565	-	51,439,440	295,820,525	117,114,002	533,886,532	43.48%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") <sup>(2)</sup>	Beneficial owner/ interest of child under 18 and spouse	295,820,525	-	-	120,952,005	117,114,002	533,886,532	43.48%
Mr. Koh Boon Hwee ("Mr. Koh")	Beneficial owner	1,307,562	-	-	-	-	1,307,562	0.11%

### Notes:

- (1) Mr. Pan beneficially owns 69,512,565 shares. In addition, Mr. Pan is also deemed or taken to be interested in the following shares for the purpose of the SFO:
- (i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan;
  - (ii) 295,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 295,820,525 shares; and
  - (iii) 117,114,002 shares representing the aggregate of (a) 112,375,158 shares which are deemed to be interested by Mr. Pan's and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan's 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 the other is under the age of 18.

## OTHER INFORMATION

- (2) Ms. Wu beneficially owns 295,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purpose of the SFO:
- (i) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; and (b) 69,512,565 shares which are beneficially owned by Mr. Pan and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and
  - (ii) 117,114,002 shares representing the aggregate of (a) 112,375,158 shares which are deemed to be interested by Mr. Pan's and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan's 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 the other is under the age of 18.

Other than as disclosed above, as at 30th June, 2012, none of the Directors, chief executive 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 as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2012, the register of interests and short positions kept by the Company under Section 336 of the SFO other than the Directors and chief executive, showed that the following persons held interests or short positions in the Company's shares:

Name of shareholders	Capacity	Number of ordinary shares	Derivative interest	Percentage of the Company's issued share capital as at 30th June, 2012
JPMorgan Chase & Co. <sup>(1)</sup>	Beneficial owner/Investment Manager/	196,666,194 (L)	-	16.02%
	Trustee/Custodian corporation/	3,100,000 (S)		0.25%
	Approved lending agent	64,479,487 (P)		5.25%
Capital Research and Management Company	Investment Manager	97,542,100 (L)	-	7.94%
Credit Suisse Group <sup>(2)</sup>	Interest in controlled corporation	93,600,000 (L)	46,800,000(L)	7.62%
		93,600,000 (S)		7.62%

L – Long position

S – Short position

P – Lending pool

# OTHER INFORMATION

## Notes:

(1) JPMorgan Chase & Co. through its various controlled corporations is interested in an aggregate of 196,666,194 shares of the Company as follows:

(i) 3,114,705 shares are directly held in aggregate by J.P. Morgan Securities Ltd. (3,100,000 shares) and J.P. Morgan Whitefriars Inc. (14,705 shares).

3,100,000 shares are directly held by J.P. Morgan Securities Ltd.. By virtue of J.P. Morgan Chase International Holdings' 98.95% interest in J.P. Morgan Securities Ltd., J.P. Morgan Chase (UK) Holdings Limited's 100% interest in J.P. Morgan Chase International Holdings, J.P. Morgan Capital Holdings Limited's 100% interest in J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan International Finance Limited's 100% interest in J.P. Morgan Capital Holdings Limited, Bank One International Holdings Corporation's 100% interest in J.P. Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, JPMorgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., JPMorgan Chase & Co.'s 100% interest in JPMorgan Chase Bank, N.A., each of J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co. is deemed to be interested in these 3,100,000 shares.

14,705 shares are directly held by J.P. Morgan Whitefriars Inc.. By virtue of J.P. Morgan Overseas Capital Corporation's 100% interest in J.P. Morgan Whitefriars Inc., J.P. Morgan International Finance Limited's 100% interest in J.P. Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in J.P. Morgan International Finance Limited, each of J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co. is deemed to be interested in these 14,705 shares;

(ii) 117,114,002 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., JPMorgan Chase & Co.'s 100% interest in J.P. Morgan Equity Holdings, Inc., each of CMC Holding Delaware Inc., J.P. Morgan Equity Holdings, Inc., JPMorgan Chase & Co. is deemed to be interested in these 117,114,002 shares and such shares held by J.P. Morgan Trust Company of Delaware as trustee of trusts;

(iii) 11,726,000 shares are directly held in aggregate by J.P. Morgan Investment Management Inc. (2,394,000 shares), JPMorgan Asset Management (UK) Limited (3,174,000 shares), JF Asset Management Limited (4,114,000 shares), JF International Management Inc. (208,000 shares), JPMorgan Asset Management (Japan) Limited (1,072,000 shares) and JPMorgan Asset Management (Taiwan) Limited (764,000 shares).

J.P. Morgan Investment Management Inc. is 100% owned by JPMorgan Asset Management Holdings Inc. which in turn is 100% owned by JPMorgan Chase & Co.. Each of JPMorgan Chase & Co. and JPMorgan Asset Management Holdings Inc. is deemed to be interested in 2,394,000 shares held by J.P. Morgan Investment Management Inc..

JPMorgan Asset Management (UK) Limited is 100% owned by JPMorgan Asset Management Holdings (UK) Limited which in turn is 100% owned by JPMorgan Asset Management International Limited which in turn is 100% owned by JPMorgan Asset Management Holdings Inc.. Each of JPMorgan Chase & Co., JPMorgan Asset Management Holdings Inc., JPMorgan Asset Management International Limited and JPMorgan Asset Management Holdings (UK) Limited is deemed to be interested in 3,174,000 shares held by JPMorgan Asset Management (UK) Limited.

## OTHER INFORMATION

JF Asset Management Limited, JF International Management Inc., JPMorgan Asset Management (Japan) Limited and JPMorgan Asset Management (Taiwan) Limited are 100% owned by JPMorgan Asset Management (Asia) Inc., which in turn is 100% owned by JPMorgan Asset Management Holdings Inc.. Each of JPMorgan Chase & Co., JPMorgan Asset Management Holdings Inc. and JPMorgan Asset Management (Asia) Inc. is deemed to be interested in respectively 4,114,000 shares held by JF Asset Management Limited, 208,000 shares held by JF International Management Inc., 1,072,000 shares held by JPMorgan Asset Management (Japan) Limited and 764,000 shares held by JPMorgan Asset Management (Taiwan) Limited; and

- (iv) 64,711,487 shares are directly held by JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co. is deemed to be interested in these 64,711,487 shares by virtue of its 100% interest in JPMorgan Chase Bank, N.A..

JPMorgan Chase & Co. is also interested in 64,479,487 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 (and also unlisted derivative interests of 46,800,000 shares with physically settled (off exchange)) in the Company directly held by Credit Suisse First Boston (Hong Kong) Limited.

Save as the interests and short positions disclosed above, as at 30th June, 2012, so far as was known to any Directors, 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 were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17th September, 2012 to 21st September, 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 14th September, 2012.

### SHARE OPTION SCHEME

The Company approved and adopted a share option scheme (the "SO Scheme") on 15th July, 2005, which will expire at its tenth anniversary. Details are set out in the 2011 annual report of the Company. The Company has not granted any option under the SO Scheme since its adoption.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors or their associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# OTHER INFORMATION

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31st March, 2012) and the Corporate Governance Code (effective from 1st April, 2012) set out in Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 30th June, 2012, except as noted below.

Ms. Wu, a non-executive Director and Dato' Tan Bian Ee and Ms. Chang Carmen I-Hua, independent non-executive Directors, were unable to attend the annual general meeting of the Company held in May 2012 as provided for in the new code provision A.6.7 of the CG Code as these Directors were not based in Hong Kong and already had other overseas business commitments. Regular feedback of shareholders are provided for their review based on investors' communications from the Company's investor relations programme.

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

All Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the six months ended 30th June, 2012.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee was established in April 2005 with clear terms of reference which are posted on our Company's website and is chaired by Mr. Poon Chung Yin Joseph (an independent non-executive Director) with two other members, Mr. Koh (Chairman of the Board and an independent non-executive Director) and Ms. Wu (a non-executive Director).

The Audit Committee's responsibilities include the oversight of the integrity of the Company's financial statements and of the Company's system of internal control and risk management. The Audit Committee needs to oversee management while ensuring that it does not step into the management's role. The Audit Committee relies heavily on internal audit to provide an objective view on how well the Company is handling a number of key risks and controls. The external auditor also provide the Audit Committee with assurance regarding the Company's financial reporting and any material weaknesses in internal control and risk management that they might come across as part of their review considered relevant to the audit. The Audit Committee oversees the relationship and coordination between the Company, internal auditors and external auditor. The Audit Committee meets at least four times a year and when required, and meets the external auditor at least twice a year.

The Audit Committee and the auditor of the Company, Deloitte Touche Tohmatsu, have reviewed and discussed with the management regarding the Company's unaudited condensed consolidated financial statements for the six months ended 30th June, 2012.

# OTHER INFORMATION

## **Remuneration Committee**

The remuneration committee of the Company (the "Remuneration Committee") was established in April 2005 with clear terms of reference which are posted on our Company's website and is chaired by Mr. Koh (Chairman of the Board and an independent non-executive Director) with two other members, Dato' Tan Bian Ee (an independent non-executive Director) and Ms. Chang Carmen I-Hua (an independent non-executive Director).

The responsibilities of the Remuneration Committee are to advise the Board in relation to the remuneration policy and structure of the executive Directors and senior management, and to review the fees and remuneration of the Chairman and other non-executive Directors prior to the annual general meeting. In addition, the Remuneration Committee considers management recommendation for key terms of new compensation and benefits plans and reviews management's remuneration proposals with reference to the Board's corporate goals and objectives.

## **Nomination Committee**

The nomination committee of the Company (the "Nomination Committee") was established in April 2005 with clear terms of reference which are posted on our Company's website and is chaired by Dato' Tan Bian Ee (an independent non-executive Director) with two other members, Mr. Poon Chung Yin Joseph (an independent non-executive Director) and Ms. Chang Carmen I-Hua (an independent non-executive Director).

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 Directors, and ensuring the proper and transparent established procedures are complied for the appointment and re-appointment of Directors.

By order of the Board  
**AAC Technologies Holdings Inc.**  
**Koh Boon Hwee**  
*Chairman*

Hong Kong, 24th August, 2012