Annual 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
Bank of China
The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank Ltd.

STOCK CODE

02018

WEBSITE

www.aactechnologies.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

We started 2012 with strong momentum and delivered an exceptionally good performance for the year. AAC Technologies Holdings Inc. ("AAC Technologies" or the "Company") continued to strengthen our position as a global leading miniature acoustic solution provider. Capitalizing on the vibrant growth of smart devices, we captured further significant market share from existing customers and won new ones with our innovative design capability, reliable production quality and attentiveness to customers' design requirements. Furthermore, our commitment in driving the migration towards higher specifications helped us to augment the technology value of our solutions, and hence, enabled us to grow our business with stable and good profitability.

For the third consecutive year, AAC Technologies delivered record high for revenue and net profit. For the year 2012, revenue rose to RMB6,282.9 million, 54.8% higher than that of 2011 and gross profit increased to RMB2,774.2 million, representing an increase of 55.5% over RMB1,784.4 million for 2011. Net profit of the year reached RMB1,762.6 million, which was 70.1% higher than the net profit of last year.

Gross profit margin and net profit margin were well maintained at 44.2% and 28.1% respectively. By providing solutions with the best technology specifications, we were able to achieve a favorable product mix, thus supporting our margins. In addition, automated production had enhanced our operational efficiency and mitigated surging production costs in the People's Republic of China (the "PRC"). Despite heavy investments in automation, the Company has been able to manage its financial position prudently with a net-cash position up to the end of December 2012.

The Board will recommend the payment of a final dividend for the year ended 31st December, 2012 of HK50.8 cents per ordinary share. This final dividend, together with the interim dividend of HK20.0 cents, represents a payout ratio of about 40% of the profit attributable to owners of AAC Technologies.

Some of the major achievements during the year are highlighted as follows:

- Increased business with existing leading global customers
- Captured growth in the tablet market
- Delivered a comprehensive acoustic specification upgrade in smart devices
- Completed the major phase of automated production
- Introduced non-acoustic technology solutions and broadened these product ranges

Planning ahead for further growth, the Company is focusing on several key research areas of miniature component solutions such as optics, radio frequency components and haptics. In addition, we continue to enrich our portfolio of acoustic technologies by researching new systems for active noise cancellation, acoustic performance enhancement and MEMS design.

In 2012, we successfully obtained 259 additional patents, of which 62 are for non-acoustic segments, bringing our portfolio to a total of 908 patents. In 2012, we filed another 223 patents pending, which bring us to a total of 435 patents pending by the end of 2012. During the year, we focused on consolidating various technologies acquired via the companies we have invested in, and as planned, after the year, increased our equity interest in the wafer-level glass moulding company.

CHAIRMAN'S STATEMENT

There has been exciting growth in the global smart devices market in 2012, and, it is forecasted that this segment will continue to expand. By demonstrating our innovativeness in technology design, AAC Technologies has already established ourselves as one of the world's leading miniature acoustic solutions providers. We will continue to invest in research and development, both acoustic and non-acoustic, with the aim to offer the most innovative, value-adding design solutions. AAC Technologies is committed to maintaining and extending our leading position and to achieve further growth.

I am grateful to all our staff and management for their efforts throughout the year. On behalf of the Company, I would also like to thank all our customers and suppliers and I shall look forward to their continuous support. Finally, as always, my sincere appreciation goes to our Board members for their contribution and invaluable guidance during the year.

Koh Boon Hwee
Chairman

26th March, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

AAC Technologies is one of the world's foremost vertically integrated manufacturers of miniature components. Our Company designs, manufactures and distributes a comprehensive suite of acoustic and non-acoustic products. Acoustic products include receivers, speakers, microphones and headsets, and non-acoustic products include antennas, optical lenses, vibrators and ceramics products for use in mobile handsets, tablets, game consoles, ultrabooks, notebook computers and other consumer electronics devices such as electronic book-readers and MP4 players. We offer wide-ranging innovative technology design solutions covering mobile telecommunications, IT products, consumer electronics, home appliances, automobile and medical applications markets.

We will continue to deploy significant research and development resources on initiatives in the targeted technology segments, 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

There has been significant growth in our core smart devices market in the year 2012 mainly driven by the replacement of feature phone by smartphone and the growing demand of tablets and new entrants in coming up with their own designs. Consumers' emphasis on better multimedia user-experience encourages devices makers to redesign and roll out new models in a quicker manner. Shorter design cycle, flexible and readily available quality production capability and quick responsive time have become more important in supplier selection. We are able to leverage on our technology know-how to meet our customers' requirements, and, in grasping these business opportunities, deliver strong growth and financial performance in the year 2012.

The continued pursuits of audio excellence to enhance consumers' acoustic user experience have and will continue to present opportunities for the Company to apply its technological edge and maintain its market leadership. With our solid foundation in acoustic design technology, we are expanding our footprint into the non-acoustic arena. During 2012, we have successfully obtained 259 additional acoustic and non-acoustic patents, bringing our total portfolio to 908 patents. In the same period, we filed another 223 patent, which brings patents pending to a total of 435.

FINANCIAL REVIEW

The Group continued to deliver strong organic growth in 2012. With the solid performance this year, we generated RMB1,535.1 million in net cash flow from operations. For the year ended 31st December, 2012, the Group's total revenue reached RMB6,282.9 million, representing an increase of RMB2,223.2 million, or 54.8%, compared with 2011. Gross profit of RM2,774.2 million was RMB989.8 million, or 55.5%, higher than 2011. Profit attributable to owners of the Company amounted to RMB1,762.6 million, a 70.1% increase from RMB1,036.2 million reported in last year. Basic earnings per share amounted to RMB143.54 cents, up 70.1% from RMB84.38 cents for 2011.

GEARING RATIO AND INDEBTEDNESS

The gearing ratio of the Group, computed by dividing short-term bank loans by total assets, was 11.6% as at 31st December, 2012 compared with 13.3% as at 31st December, 2011.

As at 31st December, 2012, the Group had RMB1,034.9 million of short-term bank loans compared with RMB891.1 million as at 31st December, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities. As at 31st December, 2012, the Group had RMB1,314.0 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB5.9 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.

FOREIGN EXCHANGE

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

It is the Group's consistent 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

Apart from the bank deposits amounts of RMB5.9 million and RMB0.9 million pledged to banks respectively as at 31st December, 2012 and 31st December, 2011, no other Group asset was under charge to any financial institution.

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 increased 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 31st December, 2012, the Group employed 26,575 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, USA and various countries in Europe.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Although the global economy is facing challenging times, smart mobile multimedia devices is one of the few bright spots remain flourishing. Industry analysts forecast that these devices will continue to grow in the years to come and we expect that smartphone and tablet will provide the driving force and remain our major business focus.

Technology leadership, production efficiencies and strong solid execution have led to our success and would be our keys for sustainable growth in the future. We will aim to further increase our market shares through innovative solutions and strong R&D, and, manufacturing excellence with both automation and workflow optimization.

We will also seek to extend the scope of our product offerings to new miniature components solutions including optics, haptics and wireless technologies. During the year, we saw positive progress for our innovative design of integrated speaker box and antenna solutions where customers readily adopted in their latest high-end devices.

The enrichment of product portfolio, in both acoustic and non-acoustic segments, would help us further advance on achieving to become a comprehensive miniature components solutions provider. Our ultimate goal is to become one of the world's leading micro components solution provider for consumer and industrial products.

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 six months ended 31st December, 2012, an interim dividend in respect of the six months ended 30th June, 2012 of HK20.0 cents (2011: HK20.0 cents) per share was paid to Shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK50.8 cents (2011: HK21.6 cents) per ordinary share in respect of the year ended 31st December, 2012. This proposed final dividend together with the interim dividend already paid amount to total dividends of HK70.8 cents (2011: HK41.6 cents) representing a growth of 70.2% at an unchanged payout ratio of about 40% of the profit attributable to owners of the Company for the year.

Subject to the Shareholders' approval at the forthcoming annual general meeting to be held on 23rd May, 2013, the said final dividend will be payable to Shareholders of the Company, whose names appear on the register of members of the Company on 31st May, 2013 and payable on or about 7th June, 2013.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 44, is an executive Director and Chief Executive Officer ("CEO") 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 CEO of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing of our polyphonic speakers, miniature receivers, transducers and Electret Condenser Microphones. Mr. Pan graduated from the 江蘇省武進師範學校(Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is the spouse of Ms. Ingrid Chunyuan Wu ("Ms. Wu"), the non-executive Director and a substantial Shareholder of the Company.

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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")) 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.

The term of appointment of Mr. Pan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Mr. Pan is subject to retirement by rotation and re-election in accordance with the article of association of the Company. 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 Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO"), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Pan	Beneficial owner/ interest of spouse and child under 18/interest of controlled corporation/personal, family and corporate interest	500,886,532 (Note)	40.79%

Note:

Mr. Pan beneficially owns 69,512,565 shares. In addition, Mr. Pan is 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 wholly-owned by Mr. Pan;

(ii) 262,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 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 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 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.

Save as disclosed above, Mr. Pan 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 (the "Model Code") in the Listing Rules.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 49, is an executive Director of the Company. With over 20 years of experience in finance, Mr. Mok is a Hong Kong certified public accountant and a chartered accountant in the United Kingdom. Mr. Mok held a diploma in applied psychology from Hong Kong Baptist University and graduated from the London School of Economics and Political Science, London University.

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.

The term of appointment of Mr. Mok is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Mr. Mok is subject to retirement by rotation and re-election in accordance with the article of association of the Company. 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.

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 in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. Ingrid Chunyuan Wu, aged 42, is a non-executive Director of the Company and 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, Changzhou AAC 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, CEO and a substantial Shareholder of the Company. She has directorship in a number or subsidiaries 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 and she does not hold any other position in the Group.

The term of appointment of Ms. Wu is set out in the “Directors and Service Contracts” section of the Directors’ Report on page 17 of this annual report. Ms. Wu is subject to retirement by rotation and re-election in accordance with the article of association of the Company. She is entitled to the director’s fee of US$50,000 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 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. Her director’s fee is subject to Shareholders’ approval at the annual general meeting.

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. Wu	Beneficial owner/interest of spouse and child under 18/personal and family interest	500,886,532 (Note)	40.79%

Note:

Ms. Wu beneficially owns 262,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes 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 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 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.

Save as disclosed above, Ms. Wu 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 in the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 62, is the Chairman of the Board and an independent non-executive Director. He is Chairman of the remuneration committee and a member of the audit committee. Mr. Koh has been appointed to the Board since November 2004. He brings with him extensive management experience and leadership, and has over 30 years of experience in the IT-related and electronics industries.

He is currently the Chairman (executive) of Credence Partners Pte Ltd, which manages Credence Capital, a private equity fund focused on SMEs in South East Asia.

He is also currently the Chairman (non-executive) of Sunningdale Tech Ltd, Yeo Hiap Seng Limited and Far East Orchard Ltd (all publicly-listed in Singapore) and Yeo Hiap Seng (Malaysia) Berhad (publicly-listed in Malaysia). Mr. Koh also serves on the Board of Agilent Technologies, Inc. (publicly-listed in the US). He is Chairman (non-executive) of Rippledot Capital Advisers Pte Ltd as well as FEO Hospitality Asset Management Pte Ltd and FEO Hospitality Trust Management Pte Ltd, both private companies, which manage Singapore listed Far East Hospitality Trust.

In the non-profit sector, he is Chairman of the Nanyang Technological University Board of Trustees in Singapore and a Director of the Hewlett Foundation in the US.

Mr. Koh was previously Chairman of DBS Group Holdings Ltd (2005-2010), 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), all being listed companies in Singapore; Executive Chairman of Wuthelam Holdings Pte Ltd (1991-2000) and before that, Managing Director of Hewlett Packard Singapore (1985-1990), where he started his career in 1977. Mr. Koh was also a Director of Temasek Holdings Pte Ltd (1996-2010), and a member of the Executive Committee of the Board (1997-2010).

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.

The term of appointment of Mr. Koh is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Mr. Koh is subject to retirement by rotation and re-election in accordance with the article of association of the Company. He is entitled to the director's fee of US$105,000 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. 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. His director's fee is subject to Shareholders' approval at the annual general meeting.

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	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 in the Listing Rules.

Dato' Tan Bian Ee ("Dato' Tan"), aged 66, 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 was appointed as an independent Director in September 2010 and on 18th February, 2010 re-appointed as the CEO and executive Director of MFS Technology Ltd., a company listed in Singapore. He has stepped down from Singapore Airlines Engineering Company on July 2010 after 6 years of service. 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.

The term of appointment of Dato' Tan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Dato' Tan is 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$42,500 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. His director's fee is subject to Shareholders' approval at the annual general meeting.

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 in the Listing Rules.

Mr. Poon Chung Yin Joseph ("Mr. Poon"), aged 58, 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 Ltd., a company listed in Hong Kong. Mr. Poon was formerly the managing Director and deputy chief executive Director of Hang Seng Bank Limited 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 Environmental and Conservation Fund Investment Committee. Previously, he was also the Chairman of Hang Seng Index Advisory Committee of 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.

The term of appointment of Mr. Poon is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Mr. Poon is 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$67,500 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. His director's fee is subject to Shareholders' approval at the annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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 in the Listing Rules.

Ms. Chang Carmen I-Hua ("Ms. Chang"), aged 65, was appointed as an independent non-executive Director, a member of the remuneration committee and a member of the nomination committee of the Company on 3rd May, 2010. Ms. Chang retired as a Partner at Wilson Sonsini Goodrich & Rosati (WSGR) in February 2012, and has joined New Enterprise Associates, Inc.(NEA) as a Special Senior Advisor. In addition to her senior advisory role with NEA, Ms. Chang is associated with the Center for International Security and Cooperation of Stanford University and a fellow for the Arthur and Toni Rembe Rock Center for Corporate Governance, a joint initiative of Stanford Law School and the Stanford Graduate School of Business.

Ms. Chang's practice at WSGR focused on the representation of public and private technology companies and financial institutions in public offerings, mergers and acquisitions, joint ventures, financings, and other types of transactions in the United States and abroad, particularly in the PRC, Taiwan, and other Asian countries. Among many other transactions, Ms. Chang represented Semiconductor Manufacturing International Corporation in its acquisition of Motorola's manufacturing operation in Tianjin.

Ms. Chang 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. Chang 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 she does not hold any other position in the Group.

The term of appointment of Ms. Chang is set out in the "Directors and Service Contracts" section of the Directors' Report on page 17 of this annual report. Ms. Chang is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. She is entitled to the director's fee of US$40,000 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 Ms. Chang 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. Her director's fee is subject to Shareholders' approval at the annual general meeting.

Ms. Chang 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 in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Du Kuang-Yang ("Mr. Du"), aged 63, is the chief operating officer of the Company. Mr. Du is responsible for daily operations, including sales and marketing, of the Company and reports directly to the CEO. Mr. Du has over 30 years' managerial experience in electronics manufacturing industry. From 2001 to 2005, Mr. Du was Vice President of Supply Chain Management of Solectron (Suzhou) Technology Co., Ltd.. From 1988 to 2001, Mr. Du worked for Motorola's various subsidiaries where he was the managing Director of components products sector for Motorola's Tianjin subsidiary and general manager of Personal Communication Sector for Motorola's Taiwan subsidiary. Mr. Du obtained a certificate in business administration from the National Taichung Institute of Technology (previously known as 台灣省立台中商業專科學校 (Taiwan Provincial School of Commerce of Tai-Chung)) in Taiwan in 1971. Mr. Du joined the Group in March 2005.

Mr. David Plekenpol ("Mr. Plekenpol"), aged 53, is the chief strategy officer of the Company. Mr. Plekenpol is responsible for future business strategy, including assessing and identifying technology trends and development, for the Company and reports directly to the CEO. Mr. Plekenpol has spent twenty 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 Technologies. 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 Technologies in February 2010.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 37 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 42.

An interim dividend of HK20.0 cents was paid during the year. The Directors have resolved to recommend the payment of a final dividend of HK50.8 cents per 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 14 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 RMB1,286,410,000 (2011: RMB1,156,364,000). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association of the Company and there are no restrictions against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 30 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out on page 98.

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company 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

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Koh, Ms. Wu and Ms. Chang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Pan has entered into a letter of appointment with the Company for a term from 15th July, 2011 until the conclusion of the annual general meeting of the Company to be held in 2014, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director for any reason pursuant to the Company's Articles of Association or any other applicable law.

Mr. Mok has entered into a letter of appointment with the Company for a term from 6th October, 2012 until the conclusion of the annual general meeting of the Company to be held in 2015, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director for any reason pursuant to the Company's Articles of Association or any other applicable law.

The term of appointment of each of Ms. Wu, Mr. Koh, Mr. Poon, Ms. Chang and Dato' Tan will expire on the date of 2013 annual general meeting to be held on 23rd May, 2013. The Company has entered into a new letter of appointment with each of them respectively for a term from the date of 2013 annual general meeting to be held on 23rd May, 2013 until the conclusion of the annual general meeting of the Company to be held in 2015, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director for any reason pursuant to the Company's Articles of Association or any other applicable law.

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 that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to rule 3.13 of the Listing Rules on 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 EXECUTIVE'S INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31st December, 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 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, were as follows:

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

		Number of ordinary shares						
Name of Directors	Capacity	Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests	Total number of shares	Percentage of the Company's issued share capital as at 31st December, 2012
Mr. Pan [1]	Beneficial owner/ interest of child under 18 and spouse/ interest of controlled corporation	69,512,565	–	51,439,440	262,820,525	117,114,002	500,886,532	40.79%
Ms. Wu [2]	Beneficial owner/ interest of child under 18 and spouse	262,820,525	–	–	120,952,005	117,114,002	500,886,532	40.79%
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) 262,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 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 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 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.

(2) Ms. Wu beneficially owns 262,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes 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 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 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 31st December, 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.

SHARE OPTION SCHEME

Details of the Company's share option scheme adopted on 15th July, 2005 are set out in note 31 to the consolidated financial statements. The Company has not granted any option under the share option scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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) One purchase agreement was entered into between the Group (AAC New Power Development (Changzhou) Co., Ltd. (''AAC New Power'')) and 常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd. on 3rd August, 2011 (the ''Changzhou ZKLF Agreement''). The term of the Changzhou ZKLF Agreement is for a term of two years and four months commencing from 3rd August, 2011 and expiring on 31st December, 2013. The Board expects the annual purchase amount under the Changzhou ZKLF Agreement will not exceed RMB4.26 million, RMB10.22 million and RMB51.08 million for the two years and four months ending 31st December, 2013.

(2) One purchase agreement was entered into between the Group (AAC New Power) and 成都茵地樂電源科技有限公司 (Chengdu Yindile Power Supply Technologies Co., Ltd.), an indirect subsidiary of 江蘇遠宇電子集團有限公司 (Jiangsu Yuanyu Electronics Group Co., Ltd. (''Jiangsu Yuanyu'')) on 3rd August, 2011 (the ''Chengdu Yindile Agreement''). The term of the Chengdu Yindile Agreement is for a term of two years and four months commencing from 3rd August, 2011 and expiring on 31st December, 2013. The Board expects the annual purchase amount under the Chengdu Yindile Agreement will not exceed RMB1.12 million, RMB2.69 million and RMB13.46 million for the two years and four months ending 31st December, 2013.

(3) Five purchase agreements were entered into between the Group (AAC Acoustic Technologies (Changzhou) Co., Ltd. ("Changzhou Ruisheng"), Changzhou AAC, AAC Acoustic Technologies (Shenzhen) Co., Ltd. ("AAC Shenzhen"), AAC Technologies (Shuyang) Co., Ltd. ("AAC Shuyang") and AAC Microtech (Changzhou) Co., Ltd. ("Microtech Changzhou")) and 常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory), a company wholly-owned by mother of Ms. Wu ("Wu's Mother"), on 1st January, 2011 (the "New HGCJ Agreements"). The term of the New HGCJ Agreements is for a term of three years commencing from 1st January, 2011 and expiring on 31st December, 2013. The Board expects the annual purchase amount under the New HGCJ Agreements will not exceed RMB6.5 million, RMB8.5 million and RMB11.0 million for the three years ending 31st December, 2013.

(4) Five purchase agreements were entered into between the Group (Changzhou Ruisheng, Changzhou AAC, AAC Shenzhen, AAC Shuyang and Microtech Changzhou) and 常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.), a company owned as to 30% by mother of Mr. Pan and 70% by sister of Mr. Pan, on 1st January, 2011 (the "New Yousheng Agreements"). The term of the New Yousheng Agreements is for a term of three years commencing from 1st January, 2011 and expiring on 31st December, 2013. The Board expects the annual purchase amount under the New Yousheng Agreements will not exceed RMB24.0 million, RMB32.0 million and RMB42.0 million for the three years ending 31st December, 2013.

(5) Five purchase agreements were entered into between the Group (Changzhou Ruisheng, Changzhou AAC, AAC Shenzhen, AAC Shuyang and Microtech Changzhou) 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, 2011 (the "New Changzhou Model Agreements"). The term of the New Changzhou Model Agreements is for a term of three years commencing from 1st January, 2011 and expiring on 31st December, 2013. The Board expects the annual purchase amount under the New Changzhou Model Agreements will not exceed RMB25.0 million, RMB32.5 million and RMB43.0 million for the three years ending 31st December, 2013.

(6) Two agreements were entered into between the Group (AAC New Power and AAC Biotechnology (Changzhou) Co., Ltd.) and Jiangsu Yuanyu for the leasing of properties by the Group in August 2011 (the "AAC New Power Lease Agreement" and the "AAC Biotechnology Lease Agreement"). The terms of the AAC New Power Lease Agreement are vary between the period from 3rd August, 2011 to 31st December, 2013. The Board expects the annual leasing rent payable under the AAC New Power Lease Agreement will not exceed RMB0.85 million, RMB2.29 million and RMB3.26 million for the period ending 31st December, 2013. The term of the AAC Biotechnology Lease Agreement is from 3rd August, 2011 and expiring on 31st December, 2013. The Board expects the annual leasing rent payable under the AAC Biotechnology Lease Agreement will not exceed RMB0.05 million, RMB0.09 million and RMB0.09 million for the period ending 31st December, 2013.

On 28th December, 2012, AAC New Power entered into the Supplemental AAC New Power Lease Agreement (the "Supplemental AAC New Power Lease Agreement") with Jiangsu Yuanyu, pursuant to which AAC New Power and Jiangsu Yuanyu agreed to revise the AAC New Power Lease Agreement for the period from 1st January, 2013 to 31st December, 2013. The Board expects the annual leasing rent payable under the Supplemental AAC New Power Lease Agreement will not exceed RMB3.60 million for the year ending 31st December, 2013.

(7) One agreement was entered into between the Group (AAC Shenzhen) and 深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.), a company directly wholly-owned by Wu's Mother, for the leasing of properties by the Group on 28th December, 2010 (the "New Shenzhen Yuanyu Agreement"). The term of the New Shenzhen Yuanyu Agreement is for a term of three years commencing from 1st January, 2011 and expiring on 31st December, 2013. The Board expects the annual leasing rent payable under the New Shenzhen Yuanyu Agreement will not exceed RMB4.79 million for each of the three years ending 31st December, 2013 respectively.

(8) On 4th November, 2010 and 28th December, 2010, 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 Mother entered into the New Wu's Mother Agreement for the lease of a list of properties for a period of three years commencing from 1st January, 2011, and expiring on 31st December, 2013, at an annual rent of approximately RMB3.34 million for each of the three years respectively.

(9) Three agreements were entered into between the Group (Changzhou Ruisheng, Changzhou AAC and Microtech Changzhou) and 常州來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd. (''Changzhou LFY'')), for the leasing of properties by the Group on 28th December, 2010 (the ''New Changzhou LFY Agreements''). The terms of the New Changzhou LFY Agreements are vary with each leasing agreement between the period from 1st January, 2011 to 31st December, 2013. The Board expects the annual leasing rent payable under the New Changzhou LFY Agreements will not exceed RMB1.51 million for each of the three years respectively.

On 1st March, 2012, Changzhou Ruisheng, Changzhou AAC and Microtech Changzhou entered into the Supplemental Changzhou LFY Agreements with Changzhou LFY (the ''Supplemental Changzhou LFY Agreements''), pursuant to which Changzhou Ruisheng, Changzhou AAC and Microtech Changzhou and Changzhou LFY agreed to revise the New Changzhou LFY Agreements for the period from 1st January, 2012 to 31st December, 2013. The Board expects the annual leasing rent payable under the Supplemental Changzhou LFY Agreements will not exceed RMB1.32 million and RMB1.39 million for two years ending 31st December, 2013.

(10) On 28th December, 2010, member of the Group (AAC U.S.) and Mr. Pan and Ms. Wu entered into the American Audio Agreement for the lease of a portion of a building for a period of three years commencing from 1st January, 2011, and expiring on 31st December, 2013, at an annual rent of approximately USD0.08 million for each of the three years respectively.

(11) Two agreements were entered into between the Group (Microtech Changzhou and AAC Module Technologies (Changzhou) Co., Ltd.) and Jiangsu Yuanyu for the leasing of properties by the Group on 9th July, 2012 (the "Old Microtech Changzhou Lease Agreement" and the "AAC Module Lease Agreement"). The terms of these two agreements are for a term of two years commencing from 10th July, 2012 and expiring on 9th July, 2014. The Board expects the annual leasing rent payable under each of agreement will not exceed RMB0.16 million, RMB0.32 million and RMB0.16 million for the two years ending 9th July, 2014 respectively.

(12) Two agreements were entered into between the Group (Microtech Changzhou and Changzhou AAC) and Jiangsu Yuanyu for the leasing of properties by the Group on 28th December, 2012 (the ''New Microtech Changzhou Lease Agreement" and the "Audio Changzhou Lease Agreement"). The terms of these two agreements are for a term of two years commencing from 1st January, 2013 and expiring on 31st December, 2014. The Board expects the annual leasing rent payable under the New Microtech Changzhou Lease Agreement will not exceed RMB0.41 million for each of the two years respectively, and expects the annual leasing rent payable under the Audio Changzhou Lease Agreement will not exceed RMB0.74 million for each of the two years ending 31st December, 2014 respectively.

The Board of Directors, including the independent non-executive Directors, believe that the entering into of each of Changzhou ZKLF Agreement, Chengdu Yindile Agreement, New HGCJ Agreements, New Yousheng Agreements and New Changzhou Model Agreements facilitates the operations 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 AAC New Power Lease Agreement, Supplemental AAC New Power Lease Agreement, AAC Biotechnology Lease Agreement, New Shenzhen Yuanyu Agreement, New Wu's Mother Agreement, New Changzhou LFY Agreements, Supplemental Changzhou LFY Agreements, American Audio Agreement, Old Microtech Changzhou Lease Agreement, AAC Module Lease Agreement, New Microtech Changzhou Lease Agreement and Audio Changzhou Lease Agreement, 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) are of the view that the entering into of the aforementioned agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the above are set out in the Company's announcement dated 29th December, 2010, 4th August, 2011 and 31st December, 2012.

Furthermore, the Board of Directors, including the independent non-executive Directors, have reviewed the above continuing connected transactions and opined that the aforementioned agreements and transactions contemplated therein had been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on terms no less favourable to the Company than terms available to independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions for the year ended 31st December, 2012 disclosed by the Group from pages 19 to 21 of the annual report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The continuing connected transactions entered into by the Group for the year ended 31st December, 2012:

(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;

(c) have not exceeded the relevant cap amount for the financial year ended 31st December, 2012 disclosed in previous announcements; and

(d) have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

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.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 36 to the financial statements and include transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 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 shares	Derivative interest	Percentage of the Company's issued share capital as at 31st December, 2012
JPMorgan Chase & Co. [1]	Benefit owner/Investment Manager/ Trustee/Custodian corporation/ Approved lending agent	221,168,921 (L) 3,020,500 (S) 63,021,714 (P)	–	18.01% 0.25% 5.13%
Credit Suisse Group [2]	Interest of controlled corporation	93,600,000(L) 93,600,000(S)	46,800,000(L)	7.62% 7.62%
The Capital Group Companies, Inc. [3]	Interest of controlled corporation	84,035,100(L)	–	6.84%

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

Notes:

(1) JPMorgan Chase & Co. through its various controlled corporations is interested in an aggregate of 221,168,921 shares of the Company as follows:

(i) 3,054,705 shares are directly held in aggregate by J.P. Morgan Securities plc (3,020,500 shares) and J.P. Morgan Whitefriars Inc. (34,205 shares).

3,020,500 shares are directly held by J.P. Morgan Securities plc. By virtue of J.P. Morgan Chase International Holdings' 98.95% interest in J.P. Morgan Securities plc, 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 3,020,500 shares.

34,205 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 34,205 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) 33,080,500 shares are directly held in aggregate by J.P. Morgan Investment Management Inc. (938,500 shares), JPMorgan Asset Management (UK) Limited (1,590,500 shares), JF Asset Management Limited (24,735,000 shares), JF International Management Inc. (464,500 shares), JPMorgan Asset Management (Japan) Limited (2,660,000 shares) and JPMorgan Asset Management (Taiwan) Limited (2,692,000 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 938,500 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 1,590,500 shares held by JPMorgan Asset Management (UK) Limited.

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 24,735,000 shares held by JF Asset Management Limited, 464,500 shares held by JF International Management Inc., 2,660,000 shares held by JPMorgan Asset Management (Japan) Limited and 2,692,000 shares held by JPMorgan Asset Management (Taiwan) Limited;

(iv) 4,794,000 shares are directly held by China International Fund Management Co., Ltd.. By virtue of JPMorgan Asset Management (UK) Limited's 49% interest in China International Fund Management Co., Ltd., JPMorgan Asset Management Holdings (UK) Limited's 100% interest in JPMorgan Asset Management (UK) Limited, JPMorgan Asset Management International Limited's 100% interest in JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Asset Management Holdings Inc.'s 100% interest in JPMorgan Asset Management International Limited, JPMorgan Chase & Co.'s 100% interest in JPMorgan Asset Management Holdings Inc., each of JPMorgan Chase & Co., JPMorgan Asset Management Holdings Inc., JPMorgan Asset Management International Limited, JPMorgan Asset Management Holdings (UK) Limited and JPMorgan Asset Management (UK) Limited is deemed to be interested in 4,794,000 shares; and

(v) 63,125,714 shares are directly held by JPMorgan Chase Bank, N.A. and JPMorgan Chase & Co. is deemed to be interested in these 63,125,714 shares by virtue of its 100% interest in JPMorgan Chase Bank, N.A..

JPMorgan Chase & Co. is also interested in 63,021,714 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) 93,600,000 shares are directly held by Credit Suisse First Boston (Hong Kong) Limited. 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.

(3) 84,035,100 shares are held in aggregate by Capital International, Inc. (3,052,000 shares) and Capital Research and Management Company (80,983,100 shares). By virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Group International, Inc., Capital Group International, Inc.'s 100% interest in Capital International, Inc., each of The Capital Group Companies, Inc. and Capital Group International, Inc. is deemed to be interested in 3,052,000 shares held by Capital International, Inc.. And by virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Research and Management Company, The Capital Group Companies, Inc. is deemed to be interested in 80,983,100 shares held by Capital Research and Management Company.

Save as the interests and short positions disclosed above, as at 31st December, 2012, so far as was known to any Directors of the Company, 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.

EMOLUMENT POLICY

The Board has delegated the remuneration committee with assisting the Board on formulating remuneration policy and reviewing the emoluments of senior management and Directors of the Company. Responsibilities and work performed in 2012 by the remuneration committee are stated on pages 32 to 33 in the Corporate Governance Report, and, details of the emolument policy are described on pages 33 to 34.

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, 2012.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 73.1% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 37.2% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 36.2% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 12.6% of the Group's total purchases.

None of the Directors, including Mr. Pan and Ms. Wu, 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 year, none of the Directors of the Company or their respective associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors of the Company were appointed as Directors to represent the interests of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float during the year ended 31st December, 2012.

AUDITOR

The consolidated financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
AAC Technologies Holdings Inc.

KOH BOON HWEE
Chairman

26th March, 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE POLICY AND PRACTICES

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

Our Board of Directors is at the centre of our corporate governance structure regularly reviewing, refining and overseeing enforcement of the Company's corporate governance practices. The Board is of the view that the current framework and internal established processes will enable the Company to comply with applicable statutory and regulatory requirements and the latest best corporate governance practices. The Board has from time to time reviewed its corporate governance practices and ensured that they are in compliance with the Code on Corporate Governance Practices (effective until 31st March, 2012) and the Corporate Governance Code (effective from 1st April, 2012) (the "CG Code") as set out in the Appendix 14 of the Listing Rules of the Stock Exchange.

The Company recognizes the importance of periodic review and updating our corporate governance practices to ensure its continuous compliance and meeting of the highest standards. We believe that the following key components of our corporate governance framework will promote continued renewal of evolving policies and practices:

I. Board of Directors and Executive Management
II. Board Committees
III. The Corporate Governance Code
IV. Legal and Regulatory compliance
V. Risk Management, Internal Control and Internal Audit
VI. Statutory Audit
VII. Code of Conduct and Whistleblowing Policy
VIII. Corporate Disclosure
IX. Company Secretary

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The overall management of the Company's operation is vested in the Board. The Board's responsibilities are to regulate and evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. The Board has reviewed day-to-day operating requirements of the Company and has preset designated financial limits for a schedule of matters delegated for management to operate and manage the business. Management is to submit business plan or investment proposals if they fall outside the designated range. The Board also reviews and approves the annual budget, and when appropriate, incremental items outside the approved budget will be raised and discussed and approval required by the Board. Under the supervision of the CEO, the management is responsible for the daily operations of the Group. CEO and senior management reports on business operations, financial results and strategic matters to the Board on a quarterly basis, and provides such updates on a monthly basis. At every Board meeting, as required, the Board will give clear strategic directions to management. Instructions from the Board are carried out and reviewed to ensure that they are implemented.

CORPORATE GOVERNANCE REPORT

During this year, the Board had considered and/or resolved the following regular and non routine matters:

- Reviewed strategic plans for the Company's core business to meet short-term objectives and to strengthen medium-term competitiveness; ongoing assessment of the Company's technology capabilities, with a view to enable it to take the Company to reach another level of commercial success and sustainability; reviewed further opportunities in our core business portfolio with executive management;

- Reviewed and considered the annual budget, capital and equity transactions proposals, major disposals and acquisitions, continuing connected transactions and other significant operational and financial matters;

- Approved the amendments to the terms of reference of the audit committee, remuneration committee and nomination committee;

- Approved the 2011 annual results and relevant audited financial statements, 2012 first quarterly results, interim results and third quarterly results and relevant unaudited financial statements;

- Recommended the proposed 2011 final dividend and declared 2012 interim dividend;

- Performed the duties of corporate governance functions under code provision D.3.1 of the CG Code; and

- Approved the adoption of the Corporate Disclosure Policy and Whistleblowing Policy.

The Board currently comprises two executive Directors, a non-executive Director and four independent non-executive Directors. Since the first date of listing, the roles of Chairman and CEO are separated and are not to be performed by the same individual, as stipulated under the code provision A.2.1 of the CG Code. The Chairman of the Board is Mr. Koh, an independent non-executive Director, and, our CEO is Mr. Pan. The number of independent non-executive Directors of the Company represents at least one-third of the Board under the Listing Rules. An updated list of Directors identifying their roles and functions and whether they are independent non-executive Directors has been published on the websites of the Stock Exchange and the Company.

Ms. Wu, a non-executive Director, is not considered as independent, as she is the spouse of the CEO and together with the CEO and family, has a substantial interest (40.8%) in the Company. Her knowledge and experience of the business of the Company and the industry the Company operates continue to contribute valuable direction to the Company. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders.

The Directors have disclosed the number and nature of offices held in public companies or organizations and other significant commitments. The Board will regularly review the contribution required by a Director to perform his/her responsibilities to the Company and whether he/she is spending sufficient time performing his/her duties.

Directors are requested to declare their personal or business interests, if any, in any transactions to be considered by the Board and such declaration of interest would be reviewed and discussed at the beginning of Board meetings and, as appropriate, Directors will or asked to withdraw from the meetings as appropriate. During the year 2012, there was one occasion when an executive Director and a non-executive Director declare their interests and withdrew from the relevant discussion at the Board meeting.

The Company has received, from each of the independent non-executive Director, an annual written confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are 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, 2012, the Board convened a total of 6 Board meetings and the annual general meeting and the attendance of the Directors at these Board meetings and the annual general meeting is as follows:

Directors	Attendance/ Board meetings	AGM
Executive Directors		
Mr. Benjamin Zhengmin Pan (Chief Executive Officer)	5/6	1/1
Mr. Mok Joe Kuen Richard	6/6	1/1
Non-executive Director		
Ms. Ingrid Chunyuan Wu	5/6	-/1
Independent Non-executive Directors		
Mr. Koh Boon Hwee (Chairman)	6/6	1/1
Mr. Poon Chung Yin Joseph	6/6	1/1
Dato' Tan Bian Ee	6/6	-/1
Ms. Chang Carmen I-Hua	5/6	-/1

Note:

Mr. Pan and Ms. Wu were required to excuse themselves from attending a Board meeting that discussed a continuing connected transaction in order to avoid conflict of interest during the year.

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 well in advance of each Board meeting. Board minutes are kept by the company secretary of the Company and are sent to the Directors for review before sign-off and for their records. They are also open for inspection by the Directors and the external auditors.

In addition to attendance at meetings and review of papers and circulars sent by the management, all Directors recognized the importance of continuous professional development. During the year ended 31st December, 2012, the Company had arranged technical statutory update briefings organized by an external law firm which were attended by most Directors. All Directors had provided to the Company records of training they received during the year, such trainings including self-reading of regulatory updated and capital market, attending in-house briefing organized by the Company and/or the other listed issuers and attending seminars organized by institutions, etc. The Board is of the view that all Directors have demonstrated sufficient participation in developing and refreshing required knowledge and skills as part of the continuous professional development programme during the year.

The Board strives to adhere to the highest principles of corporate governance and adopt sound corporate governance practices to meet legal, regulatory and commercial standards. In relation, the Board has established separate Board Committees with defined terms of reference for assisting the full Board in discharging its governance and other responsibilities such as these specific areas of focus: proper financial reporting and disclosure, risk management and internal controls, size, structure and diversity of the Board, remuneration of Directors and senior management.

BOARD COMMITTEES

Audit Committee

The audit committee of the Company (the "Audit Committee") was established in April 2005 and is currently chaired by Mr. Poon (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). Its terms of reference, including its duties, has been published on the websites of the Stock Exchange and the Company.

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 on internal audit to provide an objective view on how well the Company is handling a number of key risks and controls. The external auditors 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 auditor and external auditors.

Adopting a recommended best practice in the CG Code, the Company, since the first date of listing, has been announcing and publishing quarterly financial results. It is believed that Shareholders would be better informed about the performance and business progress of the Company with quarterly reporting. And as such, the Audit Committee is involved in the review of the quarterly, half-yearly and annual results and meets at least four times a year and when required, and meets the external auditors at least twice a year, in the absence of management at least once a year.

During the financial year ended 31st December, 2012, 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/ Committee meetings
Mr. Poon Chung Yin Joseph	4/4
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	4/4

Between 1st January, 2012 and the date of this Report (the "Relevant Period"), the Audit Committee discharged its responsibilities in its review of the quarterly, half-yearly and annual results and system of internal control and its other duties on corporate governance. The Committee reviewed the financial statements for the year ended 31st December, 2012, including the Group's adopted accounting principles and practices, in conjunction with the internal and external auditors. The Committee also reviewed the compliance by the Company with the CG Code throughout the year ended 31st December, 2012. All continuing connected transactions/connected transactions are first reviewed by the Audit Committee before recommending to the full Board, comprising all independent non-executive Directors for approval and action.

The work performed by the Committee in 2012 included reviews of:

- The 2011 annual report including the Corporate Governance Report, the Directors' Report and financial statements for the year ended 31st December, 2011 and the annual results announcement, with a recommendation to the Board for approval;
- The 2012 first quarterly results including the Group's first quarterly financial statements for the three months ended 31st March, 2012 and the relevant results announcement, with a recommendation to the Board for approval;
- The 2012 interim report including the Group's interim financial statements for the six months ended 30th June, 2012 and the interim results announcement, with a recommendation to the Board for approval;
- The 2012 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30th September, 2012 and the relevant results announcement, with a recommendation to the Board for approval;
- Compliance by the Company with the CG Code throughout the year ended 31st December, 2011 and throughout the six months ended 30th June, 2012;
- The Company's compliance with the Listing Rules, Companies Laws of the Cayman Islands, Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31st December, 2011. No breaches were identified;
- The report and management letter submitted by external auditor, which summarised matters arising from their audit on the Group for the year ended 31st December, 2011, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed;
- The audit fees payable to external auditor for the year ended 31st December, 2011 for approval by the Board, with a recommendation for their re-appointment for the financial year 2012, subject to final approval by Shareholders (given on 21st May, 2012);
- The proposed engagement of external auditor in respect of audit-related and permissible non-audit services;
- The staffing and resources of the Group's Internal Audit department and the Group internal audit review of 2012 and audit plan for 2012 with areas of emphasis identified;
- The updated terms of reference of the Audit Committee, the Whistleblowing Policy and the Corporate Disclosure Policy for adoption by the Board; and
- The adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function.

On 22nd March, 2013, the Audit Committee reviewed this annual report, including the Corporate Governance Report, the Directors' Report and financial statements for the year ended 31st December, 2012 and the annual results announcement with a recommendation to the Board for approval. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2012 and audit plan for 2013.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established in April 2005 and is currently chaired by Dato' Tan (an independent non-executive Director) with two other members, Mr. Poon (an independent non-executive Director) and Ms. Chang (an independent non-executive Director). Its terms of reference, including its duties, has been published on the websites of the Stock Exchange and the Company.

The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the structure, size and diversity 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 procedures for the appointment and re-appointment of Directors.

The current practice to appoint new Directors falls on the Nomination Committee to identify, assess and nominate suitable candidates, including those proposed by the Shareholders, 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.

During the year, there is no change of the directorship of the Company and the composition of the Board.

The Nomination Committee convened 1 meeting during the year ended 31st December, 2012 to review the structure, size and composition of the Board, to assess the independence of independent non-executive Directors, to consider the renewal of terms of appointment of independent non-executive Directors, and recommending to the Board on re-election of retiring Directors. Details of the attendance of its meeting are as follows:

Members	Attendance/ Committee meeting
Dato' Tan Bian Ee	1/1
Mr. Poon Chung Yin Joseph	1/1
Ms. Chang Carmen I-Hua	1/1

The Nomination Committee has reviewed and recommended to the Board the terms of appointment of the non-executive Directors (including independent non-executive Directors), which are set out in the "Director and service contracts" section of the "Directors' Report" on page 17 of this annual report. Furthermore, in relation to the requirement set out in the Company's articles of association and in compliance with the code provision A.4.2 of the CG Code, all Directors (including executive Directors, non-executive Director and independent non-executive Directors) are subject to retirement by rotation at least once every three years and the review of the annual list of retiring Directors are reviewed and agreed by the Nomination Committee.

The Nomination Committee also assures that there is diversity in the Board whereby the Board comprises a wide range of business, operations, technology, financial and legal experience. The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 8 to 14 of this annual report. Except for the family relationship between Mr. Pan and Ms. Wu, as disclosed in Directors' biographical information on pages 8 to 11 of this annual report, there is no financial, business, family or other material relationship between any members of the Board and, in particular, between the Chairman and the CEO.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established in April 2005 and is chaired by Mr. Koh (Chairman of the Board and an independent non-executive Director) with two other members, Dato' Tan (an independent non-executive Director) and Ms. Chang (an independent non-executive Director). Its terms of reference, including its duties, has been published on the websites of the Stock Exchange and the Company.

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.

The work performed by the Committee in 2012 included reviews of:

- The policy for the remuneration package of executive Directors, assessing performance of executive Directors and approving the terms of executive Director's letter of appointment, and making recommendation to the Board;
- The Group performance for 2011 and 2012 and Group targets for 2012 and 2013;
- Senior Executive remuneration, including annual incentive payments for 2011 and 2012 and annual pay review for 2012 and 2013;
- CEO's remuneration; and
- The updated terms of reference to reflect the changes in the Stock Exchange's revised CG Code.

The Remuneration Committee has adopted code provision B.1.2(c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

The Remuneration Committee convened 1 meeting during the year ended 31st December, 2012. Details of the attendance of its meeting are as follows:

Members	Attendance/ Committee meeting
Mr. Koh Boon Hwee	1/1
Dato' Tan Bian Ee	1/1
Ms. Chang Carmen I-Hua	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 reviewed and recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme and other performance-based schemes as incentives to the Directors and eligible employees. Details of the share option scheme are set out in note 31 to the financial statements.

The remuneration of members of the senior management by band for the year ended 31st December, 2012 is set out below:

Remuneration bands	Number of individuals
HK$4,000,001 to HK$4,500,000	1
HK$8,000,001 to HK$8,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the financial statements.

THE CORPORATE GOVERNANCE CODE

The Board has reviewed the Company's policies and its corporate governance practices and ensured that they are in compliance with the CG Code.

For the year ended 31st December, 2012, the Company had complied with all the code provisions as set out in the CG Code except that a non-executive Director and two independent non-executive Directors were unable to attend the annual general meeting of the Company held in May 2012 as provided for in the code provision A.6.7 of the CG Code as these Directors were not based in Hong Kong and had other overseas business commitments that could not be rescheduled. However the Board has ensured that all Board Committees were represented through the Directors in attendance at that annual general meeting to answer questions that might be raised. To ensure a balanced understanding of the views of Shareholders is maintained by all independent non-executive Directors, the Company provides regular Shareholders' feedback from the Company's investor relations programme.

The Company has long sought to exceed minimum code provisions. Since the first date of listing in Hong Kong, the Chairman has been an independent non-executive Director holding this role separate from the CEO's role. The Audit Committee has consistently met at least four times a year to review internal control and financial reporting matters ahead of Board meetings. To keep all non-executive Directors informed on a timely basis, updates on business operations and financial results are provided on a monthly basis. The Company already fulfilled the new Listing Rule of having at least one-third of the Board comprising independent non-executive Directors well before the effective date of 31st December, 2012. Since listing, the Company has adopted quarterly financial reporting providing financial and operational details. A significant proportion of the executive Directors' remuneration is linked to corporate and individual performances. A whistleblowing policy and system is in place.

Furthermore, the Company has already adopted these past recommended best practices that are now code provisions:

– appropriate insurance cover in respect of legal action against the Directors has been arranged by the Company to cover them against costs, charges, expenses and liabilities incurred arising out of the corporate activities;

– the Company has facilitated the Chairman to execute his responsibilities towards the Board and Shareholders of the Company;

– the Company has established a Nomination Committee which was chaired by an independent non-executive Director and all three members are independent non-executive Directors; and

– the Company has disclosed details of remuneration payable to members of senior management by bands in our annual reports.

CORPORATE GOVERNANCE REPORT

LEGAL AND REGULATORY COMPLIANCE

The Board had reviewed the Company's legal framework on implementing policies and practices to ensure the operations of the Company are in compliance with legal and regulatory requirements of all applicable jurisdictions.

The Company seeks to abide strictly by the governing laws and regulations of the jurisdictions where it operates and observes the applicable guidelines and rules issued by regulatory authorities.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code 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, 2012.

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Within the Group, there is a clearly-defined management structure with specified authority limits and segregated responsibilities to achieve business control objectives and safeguard of assets. Guidelines and approval limits for operating (including research and development) and capital expenditures are set clearly and in advance, and, with division of operators and financial personnel to be responsible for the different approval process. An internal computer portal system has been implemented to ensure the approval process is operating effectively. The approval processes prescribed in the system are reviewed regularly by an independent management committee and verified by internal audit. A separate finance team is designated to ensure maintenance of proper and complete accounting records by all Group companies for producing reliable financial information for internal management use. Regular review of the financial information involving senior management and the Board are carried out for verification and monitoring purpose.

The internal audit team also provides independent assurance that the internal controls system is effective and efficient. In order to carry out its function, the internal audit team is given unrestricted access to all business operations and personnel, and all business files and accounting records. The head of the team reports directly and regularly to the Audit Committee on the findings of audit matters. The work schedule of the internal audit team is based on a medium-term audit program reviewed and approved by the Audit Committee. Adverse implications from such findings on the accuracy and completeness of the financial report and the effectiveness of the internal control system are discussed in details by the Audit Committee and immediately rectified.

In addition, the external auditors will report and discuss with the Audit Committee on any weaknesses or defects of the internal control system arising from their audit work, and, if appropriate, adjustments are made to the financial reports and accounts.

While management is responsible for the design, implementation and maintenance of the internal controls, the Board acknowledges the responsibility of ensuring that the Group has maintained effective and sound internal controls to safeguard the Shareholders' investment and the assets of the Group. During the year ended 31st December, 2012, 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, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function were maintained properly. The Board considers that the Group's internal control system covers all material aspects, including financial, operational, risk management functions and is in compliance with all relevant regulations.

Enterprise Risk Management

To prepare for an implementation of an Enterprise Risk Management framework to manage business and operating risks of the Group, during the year, an independent professional firm has been engaged to validate the key business risks and develop a risk profile for the Group. An enterprise-wide risk assessment with management and key-process owners had been carried out to review the effectiveness of the key controls and mechanisms in place. It is anticipated that a framework would be drawn up and active management of the identified influential risks would be carried out. It is intended that the risk management framework would be able to raise risk-awareness within senior management such that a safeguarding culture of the Group's business and assets is to be developed and implemented.

STATUTORY AUDIT

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31st December, 2012, the Directors have selected suitable and applied consistent accounting policies, made reasonable judgments and prudent estimates in preparing the financial statements on a going concern basis. Reporting responsibilities of the auditor of the Company are set out on page 40 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, 2012 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. Furthermore, the Directors are aware of the responsibility for keeping proper accounting records which could provide the financial position of the Company with reasonable accuracy at all time.

The Company's external auditor is Deloitte. Deloitte has confirmed to the Audit Committee that they are independent with respect to acting as external auditor to the Company. Deloitte will not be employed for any non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been discussed and pre-approved by the Audit Committee.

During the year ended 31st December, 2012 the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Type of services	2012 HK$'000
Audit services	2,896
Non-audit services	
Interim review	780
Total	3,676

Deloitte has attended the annual general meeting to answer questions from Shareholders.

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

The Company recognises employees form an integral part of the internal control system of the corporate structure. On joining the Company, all employees are encouraged to study and be abreast of the Company's expectations regarding their duties and integrity as spelt out in the Staff Compliance Manual and the Code of Ethics. The manual and the code sets out the guiding principles to do what is right, behave with integrity and honesty and treat other colleagues fairly, respect diversity and observe legal regulations, accept accountability, communicate openly appropriately and always behave in a manner that is beyond reproach.

A group ethics committee, comprising CEO, heads of operations at the different operating locations, legal and human resources, is established to review and monitor the policies under the staff manual and the practices advocated in the Code of Ethics.

To build into a system where there are checks and balances such that no single party could 'dictate/control' a transaction, activity or process to conceal irregularities, the Company recognizes that it is necessary to provide an environment and a system where employees could feel free to report problems to management. The Board has put forward and approved a Whistleblowing policy, to be incorporated into the Code of Ethics, where employees are encouraged to raise concerns in confidence about misconduct, malpractice of matters related to the Company. "Whistleblowers" are assured of protection against unfair dismissal, victimization or unwarranted disciplinary action. To facilitate the implementation of the policy, the various reporting channels and the filing of the reporting documentation and the investigation report are laid out clearly. The Audit Committee has been delegated with overall responsibility for implementation, monitoring and periodic review of the policy.

CORPORATE DISCLOSURE

The Board recognized the significance of establishing procedures and internal controls for handling and dissemination of inside information about the Company on a timely, accurate and complete basis. The Audit Committee and the Board has amended and updated our Corporate Disclosure Policy to ensure that the continuous disclosure standards and procedures are in compliance with the requirements of the Listing Rules, Securities and Futures Ordinance and applicable laws and regulations of the Cayman Islands and the Hong Kong Companies Ordinance, including the new "Inside Information" legislation. The procedures and practices are to ensure that "Inside Information" can be escalated up within the organization and appropriate decision is made to decide if an announcement should be made. In this respect, the policy has defined "Inside Information" and the principles of disclosure so that the public and the investment community are able to appraise the position of the Company and its stock market's activity where the shares of the Company are traded. To facilitate the process, a disclosure committee has been formed and designated spokespersons are appointed with well-defined responsibilities of communicating and monitoring information disclosure to Shareholders, the investment community and the media if appropriate.

Communications with Shareholders and Investment Community

In addition to the policy on "Inside Information", the Board aims to ensure that its Shareholders and the investment community are provided with ready, equal and timely access to balanced and understandable updated operating information about the Company, such as its financial performance, strategic goals and plans, material developments, governance and risk profile, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company. The Company had established a Shareholders' communication policy during 2012.

A number of formal communication channels are used. These include the annual report, interim report, announcements, circulars and press releases of the Company. The Company also updates its website regularly to ensure prompt dissemination of information about its latest development.

Annual general meeting is another means to enter into a direct dialogue with Shareholders. Board members (including the Chairman), in particular, the Chairmen of all committees or their delegates, and a representative (usually the engagement partner) of the external auditor attend to answer Shareholders' questions.

In addition, the Company strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in ongoing dialogue with Shareholders and the investment community to keep them abreast of the Company's latest development strategy, business management, financial information and business progress.

The Company's investor relations team is committed to meeting Shareholders' and investment community's requests on communicating business-related information in a timely manner, and to proactively communicate with the investment community. This is designed to ensure the Company's strengths and competitive advantages, as well as its ability to manage changes in the business environment, are fully understood and hence reflected in the Company's market valuation. The investor relations team also reports to the Board on a monthly basis to keep the Board informed of the latest perceptions in the market regarding the Company and the issues of concern to Shareholders and the investment community.

As part of the process in dealing with "Inside Information", the investor relations team observes "Quiet Periods" that begin one calendar month prior to the announcements of its quarterly, interim and year-end financial results to avoid the potential for selective disclosure or its perception of doing so. During the Quiet Periods, there will not be any IR-related access to senior management. The "Quiet Periods" policy is posted on the Company's website at www.aactechnologies.com.

The Company analyses its shareholding structure on a regular basis, including a review of the register of institutional and retail investors, to keep track of changes in shareholdings by type of investor.

During 2012, the Company held a series of activities in relation to its quarterly, interim and annual results announcements, including panel discussions with Shareholders and the investment community via teleconferencing and participations in different conferences, forums and roadshows in Hong Kong and other parts of the world organized by different brokers. Factory visits were also organized periodically for Shareholders and the investment community. This helps the Company meet the goal of establishing sound relationships with Shareholders and the investment community and maintaining a solid and diverse Shareholder base.

During the year ended 31st December, 2012, there had been no change in the Company's constitutional documents.

COMPANY SECRETARY

The Company has engaged and appointed a representative from an external secretarial services provider as the company secretary of the Company. The primary contact persons with the company secretary of the Company are Mr. Mok, the executive Director and Ms. Jean Yao, an officer of the Company. The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year at such place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). Set out below are procedures by which Shareholders may (a) convene an EGM; (b) put forward enquires to the Board; and (c) put forward proposals at general meetings. The procedures are subject to the Company's articles of association and applicable legislation and regulation.

– Procedures for Shareholders to convene EGM

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the business to be transacted at the meeting, signed by the requisitionist(s) and deposited at the Company's principal place of business in Hong Kong or the Company's registered office for the attention of the Board or the Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. The requisition will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the requisition is proper and in order, the Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the requirements under the articles of association of the Company to all the registered Shareholders. On the contrary, if the requisition has been verified as invalid, the requisitionist(s) will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

- Not less than 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and

- Not less than 21 clear days' and not less than 20 clear business days' notice in writing if the proposal constitutes a special resolution of the Company.

– Procedures for putting enquiries to the Board

Shareholders may, at any time, direct enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email to aac2018@aactechnologies.com for the attention of head of investor relations.

– Procedures for putting forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written request, duly signed by the Shareholder concerned, setting out the proposals at the Company's principal place of business in Hong Kong for the attention of the Board and the Secretary of the Company. The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Secretary of the Company will pass the request to the Board. Whether a proposal will be put to a general meeting will be decided by the Board in its discretion, unless the proposal put forward by a Shareholder is (a) pursuant to a requisition by a Shareholder to convene an EGM referred to above or (b) forms part of ordinary business to be considered at an annual general meeting as described in article 61(1) of the articles of association of the Company.

The procedures for Shareholders of the Company to propose a person for election as Director is posted on the Company's website at www.aactechnologies.com.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF AAC TECHNOLOGIES HOLDINGS INC.
瑞聲科技控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of AAC Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 97, which comprise the consolidated statement of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of consolidated financial statements that give a true and fair view 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, 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26th March, 2013

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue		**6,282,946**	4,059,687
Cost of goods sold		**(3,508,741)**	(2,275,273)
Gross profit		**2,774,205**	1,784,414
Other income		**71,139**	66,828
Net fair value gain (loss) on foreign currency forward contracts		**1,206**	(3,829)
Distribution and selling expenses		**(186,273)**	(136,875)
Administrative expenses		**(277,468)**	(153,482)
Research and development costs		**(461,568)**	(358,238)
Share of results of associates		**25,800**	(19,154)
Gain on deemed disposal of partial interest in an associate	7	**35,407**	–
Exchange gain (loss)		**45,103**	(32,592)
Finance costs	8	**(12,033)**	(5,513)
Profit before taxation	9	**2,015,518**	1,141,559
Taxation	11	**(258,945)**	(108,626)
Profit for the year		**1,756,573**	1,032,933
Other comprehensive expense:			
Exchange differences arising from translation		**(7,331)**	(20,035)
Total comprehensive income for the year		**1,749,242**	1,012,898
Profit for the year attributable to:			
Owners of the Company		**1,762,625**	1,036,192
Non-controlling interests		**(6,052)**	(3,259)
		1,756,573	1,032,933
Total comprehensive income and expense attributable to:			
Owners of the Company		**1,754,741**	1,017,289
Non-controlling interests		**(5,499)**	(4,391)
		1,749,242	1,012,898
Earnings per share – Basic	13	**RMB143.54 cents**	RMB84.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	**3,624,281**	2,697,120
Goodwill	15	**11,803**	11,803
Prepaid lease payments	16	**113,045**	109,290
Deposits made for acquisition of property, plant and equipment		**158,556**	123,428
Available-for-sale investment	17	**3,254**	3,254
Interests in associates	18	**241,849**	181,882
Intangible assets	19	**144,451**	162,144
Loan receivable from an associate	20	**21,408**	–
		4,318,647	3,288,921
Current assets			
Inventories	21	**957,511**	558,780
Trade and other receivables	22	**2,329,222**	1,487,575
Amounts due from a related company	23	**4**	–
Foreign currency forward contracts	24	**544**	1,139
Taxation recoverable		**–**	2,868
Pledged bank deposits	25	**5,919**	874
Bank balances and cash	25	**1,313,959**	1,374,069
		4,607,159	3,425,305
Current liabilities			
Trade and other payables	26	**1,575,442**	898,742
Amounts due to related companies	23	**25,730**	19,656
Taxation payable		**115,351**	77,475
Foreign currency forward contracts	24	**–**	65
Short-term bank loans	27	**1,034,881**	891,128
		2,751,404	1,887,066
Net current assets		**1,855,755**	1,538,239
Total assets less current liabilities		**6,174,402**	4,827,160
Non-current liabilities			
Government grants	28	**9,400**	–
Deferred tax liabilities	29	**34,921**	15,738
		44,321	15,738
Net assets		**6,130,081**	4,811,422

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	30	**99,718**	99,718
Reserves		**5,978,524**	4,650,352
Equity attributable to owners of the Company		**6,078,242**	4,750,070
Non-controlling interests		**51,839**	61,352
Total equity		**6,130,081**	4,811,422

The consolidated financial statements on pages 42 to 97 were approved and authorised for issue by the Board of Directors on 26th March, 2013 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, 2012

	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	Non-controlling interests RMB'000	Total RMB'000
At 1st January, 2011	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 of financial statements of foreign operations	–	–	–	–	(18,903)	–	–	–	(18,903)	(1,132)	(20,035)
Profit for the year	–	–	–	–	–	–	–	1,036,192	1,036,192	(3,259)	1,032,933
Total comprehensive income and expense for the year	–	–	–	–	(18,903)	–	–	1,036,192	1,017,289	(4,391)	1,012,898
Dividend paid	–	–	–	–	–	–	–	(442,042)	(442,042)	–	(442,042)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(200)	(200)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	740	740	41,156	41,896
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	(462)	(462)	203	(259)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	23,238	23,238
Transfers	–	–	–	–	–	–	4,826	(4,826)	–	–	–
At 31st December, 2011	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 of financial statements of foreign operations	–	–	–	–	(7,884)	–	–	–	(7,884)	553	(7,331)
Profit for the year	–	–	–	–	–	–	–	1,762,625	1,762,625	(6,052)	1,756,573
Total comprehensive income and expense for the year	–	–	–	–	(7,884)	–	–	1,762,625	1,754,741	(5,499)	1,749,242
Dividend paid	–	–	–	–	–	–	–	(417,156)	(417,156)	–	(417,156)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	(9,413)	(9,413)	(4,014)	(13,427)
Transfers	–	–	–	–	–	–	85,092	(85,092)	–	–	–
At 31st December, 2012	99,718	746,957	1,135	23,391	(74,903)	87,245	250,429	4,944,270	6,078,242	51,839	6,130,081

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

The capital reserve relates to a deemed capital contribution from a Shareholder.

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

During the year, the Group acquired additional interests in a non-wholly owned subsidiaries 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
Profit before taxation	**2,015,518**	1,141,559
Adjustments for:		
Interest income	**(15,743)**	(27,913)
Interest expense	**12,033**	5,513
Depreciation	**326,176**	243,343
Amortisation of intangible assets	**16,835**	15,945
Net fair value (gain) loss on foreign exchange currency forward contracts	**(1,206)**	3,829
Impairment loss on goodwill	**–**	3,655
Impairment losses recognised in respect of property, plant and equipment	**32,391**	–
Write-off of intangible assets	**12,856**	–
Operating lease rentals in respect of prepaid lease payments	**2,382**	2,283
Loss on disposal of property, plant and equipment	**1,130**	6,112
Share of results of associates	**(25,800)**	19,154
Amortisation of government grants	**(1,100)**	–
Gain on deemed disposal of partial interest in an associate	**(35,407)**	–
Net allowance for bad and doubtful debts	**8,793**	908
Allowance for obsolete inventories	**33,412**	6,223
Operating cash flows before movements in working capital	**2,382,270**	1,420,611
Increase in inventories	**(432,672)**	(221,655)
Increase in trade and other receivables	**(873,089)**	(205,143)
Increase in trade and other payables	**651,621**	34,259
Increase in amounts due to related companies	**6,074**	3,233
(Advance to) repayment from related companies	**(4)**	173
Decrease (increase) in foreign currency forward contracts	**1,712**	(13,391)
Cash from operations	**1,735,912**	1,018,087
Taxation paid	**(200,860)**	(72,625)
Net cash from operating activities	**1,535,052**	945,462

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Investing activities			
Interest received		**15,743**	27,913
Government grants received relating to acquisition of property, plant and equipment		**10,500**	–
Proceeds from disposal of property, plant and equipment		**6,900**	485
Withdrawal of pledged bank deposits		**719**	27,161
Acquisition of property, plant and equipment		**(1,169,424)**	(1,039,882)
Deposits paid for acquisition of property, plant and equipment		**(158,556)**	(123,428)
Advance to an associate		**(21,408)**	–
Additions to intangible assets		**(11,980)**	(62,566)
Prepaid rentals on land use rights		**(6,137)**	(13,295)
Placement of pledged bank deposits		**(5,764)**	–
Acquisition of associates		**–**	(92,354)
Acquisition of a business (net of cash and cash equivalent acquired)	32	**–**	(39,415)
Acquisition of available-for-sale investment		**–**	(3,254)
Net cash used in investing activities		**(1,339,407)**	(1,318,635)
Financing activities			
Bank loans raised		**4,018,023**	2,264,355
Repayments of bank loans		**(3,826,576)**	(1,837,504)
Dividend paid		**(417,156)**	(442,042)
Consideration paid for acquisition of additional interest in a subsidiary		**(13,427)**	(259)
Interest paid		**(12,033)**	(5,513)
Capital contribution from non-controlling interests		**–**	41,896
Dividend paid to non-controlling interests		**–**	(200)
Net cash (used in) from financing activities		**(251,169)**	20,733
Net increase (decrease) in cash and cash equivalents		**(55,524)**	(352,440)
Cash and cash equivalents at 1st January		**1,374,069**	1,734,609
Effect of foreign exchange rate changes		**(4,586)**	(8,100)
Cash and cash equivalents at 31st December		**1,313,959**	1,374,069
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**1,313,959**	1,374,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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 37.

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 amendments to standards:

Amendments to IAS 12	Deferred tax: Recovery of underlying asset; and
Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets.

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised standards and interpretations issued but not yet effective

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

Amendments to IFRSs	Annual improvements to IFRSs 2009 – 2011 cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities[2]
IFRS 9	Financial instruments[3]
IFRS 10	Consolidated financial statements[1]
IFRS 11	Joint arrangements[1]
IFRS 12	Disclosure of interests in other entities[1]
IFRS 13	Fair value measurement[1]
IAS 19 (as revised in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[4]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[2]
IFRIC 20	Stripping costs in the production phase of a surface mine[1]

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

New and revised standards and interpretations issued but not yet effective (continued)

[1] Effective for annual periods beginning on or after 1st January, 2013.

[2] Effective for annual periods beginning on or after 1st January, 2014.

[3] Effective for annual periods beginning on or after 1st January, 2015.

[4] Effective for annual periods beginning on or after 1st July, 2012.

IFRS 9 Financial instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and SIC 12 "Consolidation – Special purpose entities". IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC 13 "Jointly controlled entities – Non-monetary contributions by venturers". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1st January, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investments in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in IFRS 10). The Directors are currently assessing the impact on the adoption of these standards and is yet to quantify the impact.

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

IFRS 13 Fair value measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 "Financial instruments: Disclosures" will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application of the new standard will result in more extensive disclosures in the consolidated financial statements.

Amendments to IAS 1 Presentation of items of other comprehensive income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1st July, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting period.

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 IFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Income and expenses 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, being the change in proportionate share of the net book value of the subsidiary and the fair value of the consideration paid or received, is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or sharebased payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period cannot exceed one year from the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business 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 is allocated to each of the relevant cash-generating units ("CGUs"), that are expected to benefit from the synergies of the combination. A CGU 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 reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The associates use accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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

Property, plant and equipment

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

Construction in progress is stated at cost less any recognised impairment loss which includes all development expenditure in relation to the construction 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 values, 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 term of the leases if shorter, 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

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building (continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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.

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 currency forward contracts), 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 are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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.

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 of 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, loans and receivables, or held-to-maturity investments.

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 are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of 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 considered to be 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as 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, and 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.

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 at residual interest first 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 accounting policies adopted in respect of consolidated 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.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities excluding derivatives, which consist of 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.

Derecognition

Financial assets are derecognised only 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, and only 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;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure (continued)

- 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 an 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, an 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.

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 differences 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 and associates 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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 rates (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. Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Impairment (other than goodwill and financial assets)

At the end of the reporting period 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 any such indication exists, the recoverable amount of the asset is estimated. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

4. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Fair value through profit or loss		
– Held for trading	544	1,139
Available-for-sale investments	3,254	3,254
Loans and receivables (including cash and cash equivalents)	3,414,262	2,708,387
Financial liabilities		
Fair value through profit or loss		
– Held for trading	–	65
Amortised cost	2,562,843	1,772,619

Financial risk management objectives and policies

The Group's major financial instruments include loan receivable from an associate, trade and other receivables, amounts due from (to) related companies, foreign currency forward contracts, 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 – spot rates

With the Group's international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's 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 complete hedge is not possible, the Group will consider to protect its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

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

During the year 2012, the Group has entered into foreign currency forward contracts to minimise the effect of exchange rate fluctuations between the RMB and the United States dollar ("US$").

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

The carrying amounts of the Group's and intra-Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
US$	**1,403,617**	2,460,238	**2,095,208**	2,549,975
Japanese Yen	**16,682**	77,744	**566,986**	293,560
Euro	**188,492**	218,443	**98,098**	119,834
HK$	**594,008**	742,469	**151,387**	212,233

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. 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% (2011: 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 (in bracket) below indicates a decrease in profit for the year where the RMB strengthen 5% against the relevant currency and vice versa. For a 5% (2011: 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 (negative for US dollar and Japanese Yen 2012).

	Impact	
	2012 RMB'000	2011 RMB'000
Increase (decrease) in profit for the year		
US$	**34,580**	4,487
Japanese Yen	**27,515**	10,791
Euro	**(4,520)**	(4,930)
HK$	**(22,131)**	(26,512)

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.

Currency risk – forward rates

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

Sensitivity analysis

If forward rates between US$ against the RMB increase by 5%, while all other variables are held constant, the profit for the year would decrease by RMB27,000 (2011: RMB54,000). For a 5% weakening of the US$ forward rates against the RMB, 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 27) and bank balances and deposits (see note 25). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 25). 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 has 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 and bank balances at the end of the reporting period was the amount outstanding for the whole year. The sensitivity analysis has excluded certain bank balances which are not interest sensitive.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2012 would decrease/increase by RMB61,000 (2011: increase/decrease by RMB1,198,000). 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, 2012 and 2011, 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, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade 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.

27.46% (2011: 18.55 %) and 57.09% (2011: 47.26%) of total trade receivables are due from the Group's largest debtor and the five largest debtors. These five customers are multi-national corporations who are mobile phone and consumer devices manufacturers. The management considers, based on the strong financial background, good creditability and repayment history 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, 2012					
Non-derivative financial liabilities					
Non-interest bearing	–	99,884	1,428,078	1,527,962	1,527,962
Variable interest rate	1.19%	–	1,035,968	1,035,968	1,034,881
		99,884	2,464,046	2,563,930	2,562,843
Derivatives – gross settlement					
Foreign exchange forward contracts					
– inflow		–	38,193	38,193	
– outflow		–	(37,444)	(37,444)	
		–	749	749	544
At 31st December, 2011					
Non-derivative financial liabilities					
Non-interest bearing	–	79,553	801,938	881,491	881,491
Variable interest rate	0.95%	–	891,949	891,949	891,128
		79,553	1,693,887	1,773,440	1,772,619
Derivatives – gross settlement					
Foreign exchange forward contracts					
– inflow		–	26,779	26,779	
– outflow		–	(24,488)	(24,488)	
		–	2,291	2,291	1,074

4. FINANCIAL INSTRUMENTS (CONTINUED)

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, 2012 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). The valuation of all foreign currency forward contracts are classified in level 2 of the fair value hierarchy. Details of the foreign currency forward contracts are disclosed in note 24.

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 equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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

6. 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 segment and to assess its performance. The chief operating decision maker of the Group has been identified as the CEO.

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. 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.

6. SEGMENT INFORMATION (CONTINUED)

Information regarding these segments is presented below.

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

	2012 RMB'000	2011 RMB'000
Operating and reportable segments		
Segment revenue from external customers		
Dynamic components	**5,052,272**	3,228,298
Microphones	**773,823**	423,321
Headsets	**69,882**	119,314
Other products	**386,969**	288,754
Revenue	**6,282,946**	4,059,687
Segment results		
Dynamic components	**2,409,144**	1,557,151
Microphones	**265,438**	147,819
Headsets	**10,964**	10,438
Other products	**88,659**	69,006
Total profit for operating and reportable segments	**2,774,205**	1,784,414
Unallocated amounts:		
Interest income	**15,743**	27,913
Other income	**55,396**	38,915
Net fair value gain (loss) on foreign currency forward contracts	**1,206**	(3,829)
Distribution and selling expenses	**(186,273)**	(136,875)
Administrative expenses	**(277,468)**	(153,482)
Research and development costs	**(461,568)**	(358,238)
Share of results of associates	**25,800**	(19,154)
Gain on deemed disposal of partial interest in an associate	**35,407**	–
Exchange gain (loss)	**45,103**	(32,592)
Finance costs	**(12,033)**	(5,513)
Profit before taxation	**2,015,518**	1,141,559

There are no inter-segment sales for both years. No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as such information is not regularly provided to the CEO for review.

6. SEGMENT INFORMATION (CONTINUED)

Depreciation and amortisation included in measure of segment results are as follows:

	2012 RMB'000	2011 RMB'000
Dynamic components	**218,979**	132,434
Microphones	**21,110**	20,335
Headsets	**1,958**	4,704
Other products	**15,064**	10,522
	257,111	167,995
Other unallocated expenses	**85,900**	91,293
	343,011	259,288

The accounting policies of the operating and 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 expenses, research and development costs, distribution and selling expenses, other income, net fair value gain (loss) on foreign currency forward contracts, exchange gain (loss), share of results of associates and gain on deemed disposal of partial interest in an associate. 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 domicile of the relevant group entities that hold those assets.

The Group's revenue from external customers analysed by location of customers are detailed below:

	2012 RMB'000	2011 RMB'000
Greater China* (country of domicile)	**902,690**	609,074
Other foreign countries:		
Other Asian countries	**496,812**	147,455
America	**3,996,667**	2,197,562
Europe	**886,777**	1,105,596
	6,282,946	4,059,687

* Greater China comprises the PRC, Hong Kong and Taiwan. Majority of the revenue from Greater China were derived from the PRC.

6. SEGMENT INFORMATION (CONTINUED)

The geographical information of the Group's revenue from external customer by individual countries in Europe and America is not available. In the opinion of management, such disclosure is harmful to the Group's business.

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB4,036,919,000 (2011: RMB2,224,268,000). No disclosure of the total amount of revenue by each customer and number of customers are disclosed, as in the opinion of the Directors, such disclosure is harmful to the Group's business.

7. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN AN ASSOCIATE

During the year, an associate of the Company issued new shares to other shareholders in April 2012 and December 2012, resulting in dilutions of the Group's equity interest in the associate from 26.7% to 20.5% and 20.5% to 20.0%, respectively. In spite of the dilutions, 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 in April 2012 and from RMB146,466,000 to RMB148,511,000 in December 2012 and the increases in share of net assets of the associate were recognised in profit and loss as a gain on deemed disposal of partial interest in an associate.

8. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank borrowings wholly repayable within five years	**12,033**	5,513

9. PROFIT BEFORE TAXATION

	2012 RMB'000	2011 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 10)	10,208	10,683
Other staff's retirement benefits scheme contributions	118,283	38,384
Other staff costs	1,345,528	873,682
Total staff costs	1,474,019	922,749
Less: Staff costs included in research and development costs	(228,908)	(145,945)
	1,245,111	776,804
Depreciation	326,176	243,343
Less: Depreciation included in research and development costs	(40,183)	(36,614)
	285,993	206,729
Amortisation of intangible assets	16,835	15,945
Net allowance for bad and doubtful debts	8,793	908
Allowance for obsolete inventories, included in cost of goods sold	33,412	6,223
Auditor's remuneration	2,346	2,305
Cost of inventories recognised as expense	3,475,329	2,269,050
Cost of raw materials included in research and development costs	84,650	98,510
Impairment loss recognised in respect of property, plant and equipment (note 14)	32,391	–
Write-off of intangible assets (note 19)	12,856	–
Loss on disposal of property, plant and equipment	1,130	6,112
Operating lease rentals in respect of		
– building premises	22,333	24,719
– prepaid lease payments	2,382	2,283
– equipment	–	87
and after crediting:		
Amortisation of government grants (note 28)	1,100	–
Government grants included in other income *	20,108	24,796
Interest income	15,743	27,913
Rental income	1,386	931

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Benjamin Zhengmin Pan RMB'000	Ingrid Chunyuan Wu RMB'000	Mok Joe Kuen Richard RMB'000	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Chang Carmen I-Hua RMB'000	Total RMB'000
31st December, 2012								
Fees	–	315	–	662	426	268	252	1,923
Salaries and other benefits	1,258	–	1,513	–	–	–	–	2,771
Bonus	2,057	–	3,445	–	–	–	–	5,502
Retirement benefits scheme contributions	–	–	12	–	–	–	–	12
Total Directors' emoluments	3,315	315	4,970	662	426	268	252	10,208
31st December, 2011								
Fees	–	322	–	664	435	274	258	1,953
Salaries and other benefits	1,520	–	1,539	–	–	–	–	3,059
Bonus	2,171	–	3,490	–	–	–	–	5,661
Retirement benefits scheme contributions	–	–	10	–	–	–	–	10
Total Directors' emoluments	3,691	322	5,039	664	435	274	258	10,683

Note: The bonus is determined with reference to the performance of the Group.

Employees' emoluments

The five highest paid individuals included one (2011: one) Director, details of whose emoluments are set out above. The emoluments of the remaining four (2011: four) highest paid individuals are as follows:

	2012 RMB'000	2011 RMB'000
Employees		
– basic salaries and allowances	3,644	3,360
– bonus	15,670	17,966
– retirement benefits scheme contributions	27	27
	19,341	21,353

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees' emoluments (continued)

The emoluments were within the following bands:

	Number of employees	
	2012	2011
HK$4,500,001 to HK$5,000,000	**2**	–
HK$5,000,001 to HK$5,500,000	**–**	2
HK$5,500,001 to HK$6,000,000	**1**	1
HK$8,000,001 to HK$8,500,000	**1**	–
HK$9,000,001 to HK$9,500,000	**–**	1

Mr. Pan is also the CEO of the Company and his emolument disclosed above include those for services rendered by him as the CEO.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) as an inducement to join or as compensation for loss of office.

11. TAXATION

	2012 RMB'000	2011 RMB'000
The current tax charge (credit) comprises:		
PRC income tax	**139,292**	75,512
Other jurisdictions	**65,729**	34,061
Overprovision of taxation in prior years	**(2,908)**	(333)
	202,113	109,240
PRC withholding tax	**37,649**	–
Deferred tax (see note 29)	**19,183**	(614)
	258,945	108,626

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 for these subsidiaries 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 the Group's PRC subsidiaries is 25% from 1st January, 2008 onwards.

11. TAXATION (CONTINUED)

According to a joint circular of Ministry of Finance and the State Administrative of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1st January, 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 5% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. Deferred tax liability on the undistributed profits earned has been accrued at the tax rate of 5% on the expected dividend stream determined by the Directors of the Company.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled a concessionary tax rate under Development and Expansion Incentive which is granted based on the fulfillment of carrying out qualifying business activities. This incentive program will expire for the subsidiary up to 2018.

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:

	2012 RMB'000	2011 RMB'000
Profit before taxation	**2,015,518**	1,141,559
Tax at the applicable income tax rate*	**503,880**	285,389
Tax effect of income not taxable for tax purpose	**(29,600)**	(8,718)
Tax effect of expenses not deductible for tax purpose	**42,405**	1,059
Tax effect of Tax Holiday	**(206,335)**	(156,210)
Tax effect of tax losses not recognised	**11,239**	4,618
Utilisation of tax losses previously not recognised	**(3,558)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(111,478)**	(17,095)
Overprovision in prior years	**(2,908)**	(333)
PRC withholding tax on undistributed earnings	**20,000**	–
PRC withholding tax	**37,649**	–
Others	**(2,349)**	(84)
Tax charge for the year	**258,945**	108,626

* The PRC Enterprise Income Tax rate of 25% (2011: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

12. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividends recognised as distribution during the year:		
2011 final dividend of HK21.6 cents (2010: HK23.7 cents) per ordinary share	**216,228**	242,025
2012 interim dividend of HK20.0 cents (2011: HK20.0 cents) per ordinary share	**200,928**	200,017
	417,156	442,042

Subsequent to the end of the reporting period, 2012 proposed final dividend of HK50.8 cents (2011: HK21.6 cents) per share, approximate to RMB505,796,000 (2011: RMB216,228,000), has been proposed by the Board of Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2012 is based on the profit for the year attributable to owners of the Company of RMB1,762,625,000 (2011: RMB1,036,192,000) and on the number of ordinary shares of 1,228,000,000 shares in issue during the year (2011: 1,228,000,000 shares).

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

14. 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, 2011	354,771	307,295	118,566	20,740	1,352,338	267,099	2,420,809
Currency realignment	(748)	(961)	(146)	(63)	(824)	(85)	(2,827)
Additions	11,784	62,541	18,402	3,734	424,721	672,067	1,193,249
Acquisition through business combinations	–	2,738	797	–	679	–	4,214
Disposals	(6,949)	(4,252)	–	(1,145)	(643)	(28)	(13,017)
Transfers	85,576	3,196	2,047	–	294,178	(384,997)	–
At 31st December, 2011	444,434	370,557	139,666	23,266	2,070,449	554,056	3,602,428
Currency realignment	369	221	10	35	702	(3)	1,334
Additions	15,121	87,623	27,375	3,887	329,771	829,075	1,292,852
Disposals	–	(2,802)	–	(1,217)	(15,682)	(24)	(19,725)
Transfers	118,988	14,462	66,400	856	633,440	(834,146)	–
At 31st December, 2012	578,912	470,061	233,451	26,827	3,018,680	548,958	4,876,889
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2011	41,561	164,898	42,032	11,510	409,249	–	669,250
Currency realignment	(37)	(387)	(29)	(27)	(385)	–	(865)
Provided for the year	16,744	47,706	25,578	2,935	150,380	–	243,343
Eliminated on disposal	(1,329)	(3,713)	–	(893)	(485)	–	(6,420)
As 31st December, 2011	56,939	208,504	67,581	13,525	558,759	–	905,308
Currency realignment	42	109	3	24	250	–	428
Provided for the year	24,032	49,509	34,060	3,048	215,527	–	326,176
Eliminated on disposal	–	(2,149)	–	(900)	(8,646)	–	(11,695)
Impairment losses recognised in profit or loss	–	68	–	3	32,320	–	32,391
At 31st December, 2012	81,013	256,041	101,644	15,700	798,210	–	1,252,608
CARRYING VALUES							
At 31st December, 2012	497,899	214,020	131,807	11,127	2,220,470	548,958	3,624,281
At 31st December, 2011	387,495	162,053	72,085	9,741	1,511,690	554,056	2,697,120

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year, the Group had impaired certain property, plant and equipment of RMB32,391,000 due to termination of production on certain products that were not part of the Group's core business and due to replacement of some other machineries by more advanced models as part of the Group's automation plan.

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

15. GOODWILL

	RMB'000
COST	
At 1st January, 2011	6,753
Arising on business combinations	8,705
Impairment loss recognised	(3,655)
At 31st December, 2011 and 31st December, 2012	11,803

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

	2012 RMB'000	2011 RMB'000
北京東微世紀科技有限公司 ("Eastmicro Technology (Beijing) Co., Ltd.") *	**1,750**	1,750
AAC Technologies Japan R&D Center Co., Ltd. (Formerly known as I. Square Research Co., Ltd.)	**1,348**	1,348
Kaleido	**8,705**	8,705
	11,803	11,803

* For identification purpose only.

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.

16. 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.

17. AVAILABLE-FOR-SALE INVESTMENT

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**3,254**	3,254

In year 2011, the Group acquired 4.6% equity interest in an unlisted company which was incorporated in Korea. The Company is engaged in research and development of integrated circuits. The investment is measured at cost less impairment as the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be measured reliably.

18. INTEREST IN ASSOCIATES

	2012 RMB'000	2011 RMB'000
Cost of investments in associates, unlisted	**200,226**	200,226
Gain on deemed disposal of partial interest in an associate (note 7)	**35,407**	–
Share of post-acquisition profits (loss) and other comprehensive income (expense)	**6,216**	(18,344)
	241,849	181,882

Details of the Group's principal associates are as follows:

Name of associate	Place of incorporation	Percentage equity interest 2012 %	2011 %	Principal activity
Heptagon Advance Micro-Optics Pte. Ltd.	Singapore	20.0%	26.7%	Micro-optics business
Xenon Technology (Cayman) Limited	Cayman Islands	39.2%	39.2%	Design and manufacture of Xenon-based flash lamp and flash modules
Mems Technology Pte. Ltd.	Singapore	50.0%	50.0%	Design and manufacture of MEMS products

Included in the cost of investment in associates is goodwill of RMB41.71 million (2011: RMB41.71 million) arising on acquisitions of associates.

18. INTEREST IN ASSOCIATES (CONTINUED)

During the year, the management assessed the associates for impairment with reference to its recoverable amount. The recoverable amount was determined based on the value in use calculations using the cashflow projections based on financial budget for the next 3 to 5 years approved by management. Cash flows beyond the budgeted period have extrapolated using a rate of 2%. Discount rates of 16% to 19.4% were used, which were determined based on the weighted average cost of capital of the investees. Based on the estimated recoverable amount, no impairment loss was considered necessary.

The associates use accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group.

Summarised financial information in respect of the assets and liabilities and post-acquisition results of the Group's associates are set out below:

	2012 RMB'000	2011 RMB'000
Total assets	**1,301,521**	583,867
Total liabilities	**(429,685)**	(178,389)
	871,836	405,478
Revenue	**1,287,977**	473,132
Profit (loss) for the year	**215,108**	(61,616)
Group's share of profit (loss) of associates for the year	**25,800**	(19,154)

19. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Total RMB'000
COST			
At 1st January, 2011	23,083	44,124	67,207
Currency realignment	–	(905)	(905)
Addition	55,497	7,069	62,566
Acquisition through business combination	65,407	9,216	74,623
At 31st December, 2011	143,987	59,504	203,491
Currency realignment	(68)	52	(16)
Addition	–	11,980	11,980
Write-off	(13,881)	–	(13,881)
At 31st December, 2012	130,038	71,536	201,574
AMORTISATION AND IMPAIRMENT			
At 1st January, 2011	1,155	24,727	25,882
Currency realignment	(32)	(448)	(480)
Provided for the year	9,230	6,715	15,945
At 31st December, 2011	10,353	30,994	41,347
Currency realignment	(7)	(27)	(34)
Provided for the year	11,463	5,372	16,835
Eliminated on write-off	(1,025)	–	(1,025)
At 31st December, 2012	20,784	36,339	57,123
CARRYING VALUE			
At 31st December, 2012	109,254	35,197	144,451
At 31st December, 2011	133,634	28,510	162,144

During the year, the Group has written off certain patents of RMB12,856,000 due to the terminations of production on the relevant products that were not part of the Group's core business.

Patents represents the Group's patents on designing small and sophisticated module structures. Development expenditure represents the Group's development cost in Micro Electro-Mechanical Systems Technology which is used to enhance the Group's current products. Amortisation is provided to write off the cost of development expenditure and patents, using the straight line method, over the estimated useful life of 5 years.

20. LOAN RECEIVABLE FROM AN ASSOCIATE

During the year, the Group has advanced loans of RMB5,694,000 (2011: nil) bears fixed interest rate at 2.06% per annum and RMB15,714,000 (2011: nil) bears interest rate at Singapore Interbank Offering Rate plus 1% per annum to an associate. The loans are secured by all issued shares of the associate with no fixed contractual maturity date.

21. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**167,899**	167,873
Work in progress	**79,306**	52,893
Finished goods	**710,306**	338,014
	957,511	558,780

22. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**1,854,053**	1,178,212
Bank acceptance bills	**53,734**	40,971
	1,907,787	1,219,183
Advance payment to suppliers	**163,365**	114,729
Prepayments	**92,885**	39,402
Other receivables	**165,185**	114,261
	2,329,222	1,487,575

The following is an analysis of trade receivables by age, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	2012 RMB'000	2011 RMB'000
Age		
0 – 90 days	**1,509,361**	1,064,770
91 – 180 days	**386,431**	131,535
Over 180 days	**11,995**	22,878
	1,907,787	1,219,183

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

Payment terms with customers are mainly on credit. Invoices are normally payable within 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 which are past due but not impaired:

	2012 RMB'000	2011 RMB'000
Age		
Overdue 0 – 90 days	**516,036**	103,710
Overdue 91 – 180 days	**4,983**	9,954
Overdue over 180 days	**708**	4,945
	521,727	118,609

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 an aggregate carrying amount of RMB521,727,000 (2011: RMB118,609,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on historical experience the Group considers the amounts which are past due and which impairment loss has not been provided for to be of good credit quality and they are expected to be recovered. The Group does not hold any collateral over these balances.

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

	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	**5,757**	4,970
Currency realignment	**(23)**	(121)
Allowance for bad and doubtful debts	**10,998**	3,722
Reversal of allowance for bad and doubtful debts	**(2,205)**	(2,814)
Balance at end of the year	**14,527**	5,757

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

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
US$	**171,538**	179,550
Euro	**76,529**	101,944
HK$	**27**	9

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Details of the amounts due from related companies, in which close family members of Ms. Wu and Mr. Pan, Directors of the Company have controlling interest, are as follows:

Name of related company	Balance at 31.12.2012 RMB'000	Balance at 1.1.2012 RMB'000	Maximum amount outstanding during the year RMB'000
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	4	–	4

* For identification purpose only.

The above amount was unsecured, interest-free and repayable on demand.

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 controlling interests in these related companies.

24. FOREIGN CURRENCY FORWARD CONTRACTS

	Assets		Liabilities	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Foreign currency forward contracts	**544**	1,139	**–**	65

24. FOREIGN CURRENCY FORWARD CONTRACTS (CONTINUED)

Details of the foreign currency forward contracts entered into by the Group with certain banks outstanding as at the end of the reporting period (the "Forward Contracts") are as follows:

At 31st December, 2012:

Description	Settlement date	Exchange rates
4 contracts to sell in aggregate US$4 million for RMB	Settled monthly on various dates from 28th January, 2013 until 29th April, 2013	At exchange rates ranging from RMB6.3725 to RMB6.3885 for US$.
1 contract to purchase in aggregate US$1 million	Settled on 14th November, 2013	At exchange rate RMB6.336 for US$.
1 contract to sell in aggregate US$1 million for RMB	Settled on 14th November, 2013	At exchange rate RMB6.382 for US$.

At 31st December, 2011:

Description	Settlement date	Exchange rates
4 contracts to sell in aggregate Euro 3 million for US$	Settled monthly on various dates from 19th January, 2012 until 29th February, 2012	At exchange rates ranging from US$1.395 to US$1.43 for Euro 1.
4 contracts to purchase in aggregate US$4 million for RMB	Settled monthly on various dates from1st February, 2012 until 27th April, 2012	At exchange rates ranging from RMB6.3494 to RMB6.38 for US$.
4 contracts to sell in aggregate US$4 million for RMB	Settled monthly on various dates from 19th January, 2012 until 23th April, 2012	At exchange rates ranging from RMB6.3784 to RMB6.406 for US$.

At any time prior to maturity of certain of Forward Contracts, if the spot rate between the US$ 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, 2012, the fair value of the Forward Contracts are determined by the respective issuing banks with reference to forward rates.

25. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

The bank balances and pledged bank deposits carry variable and fixed interest rates ranging from 0% to 5.04% (2011: 0% to 4.65%).

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

	Pledged bank deposits		Bank balances and cash	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
US$	**4,913**	633	**449,109**	311,448
HK$	**446**	–	**178,269**	80,310
Japanese Yen	**–**	–	**6,164**	48,023
Euro	**–**	–	**17,835**	13,482

26. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	**808,623**	431,925
Notes payables – secured	**319,367**	204,544
	1,127,990	636,469
Payroll and welfare payables	**247,457**	82,265
Payables for acquisition of property, plant and equipment	**56,260**	82,675
Other payables and accruals	**134,759**	87,511
Contingent consideration payable	**8,976**	9,822
	1,575,442	898,742

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

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

	2012 RMB'000	2011 RMB'000
Age		
0 – 90 days	**1,028,106**	556,916
91 – 180 days	**98,457**	78,607
Over 180 days	**1,427**	946
	1,127,990	636,469

26. TRADE AND OTHER PAYABLES (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
US$	**62,390**	74,563
Japanese Yen	**7,113**	6,029
Euro	**97**	2,369

27. SHORT-TERM BANK LOANS

The Group's short-term bank loans are set out below:

	2012 RMB'000	2011 RMB'000
US$	**513,623**	603,596
Japanese Yen	**521,258**	287,532

These loans carry interest ranging from 0.59% to 1.8% 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.

28. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB10,500,000 in aggregate from various PRC government authorities as an incentive for constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets. During the year, RMB1,100,000 (2011: nil) of the grants have been released to profit or loss and the remaining of RMB9,400,000 (2011: nil) are deferred.

29. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and the movements thereon during the current and prior year.

	Intangible assets RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1st January, 2011	–	–	–
Credited to profit or loss	(614)	–	(614)
Acquisition through business combinations	16,352	–	16,352
At 31st December, 2011	15,738	–	15,738
(Credited) charged to profit or loss	(817)	20,000	19,183
At 31st December, 2012	14,921	20,000	34,921

29. DEFERRED TAX LIABILITIES (CONTINUED)

Prior to the year ended 31st December, 2012, no deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries because the Group was in a position to control the timing of the reversal of the temporary differences and the Group has no plan to reverse such differences.

During current year, certain PRC subsidiaries of the Group has distributed dividend to their foreign investors due to the Group's strategic business plan. Accordingly, deferred tax liability has been recognised in respect of the undistributed profits that expected to be distributed in future periods.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB49,196,000 (2011: RMB18,472,000) available for offset against future profits. These losses may be carried forward for five years from the year when the losses are incurred.

No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

The deferred tax liability recognised in respect of the intangible assets was related to the acquisition of Kaleido during the year ended 31st December, 2011 as a result of the fair value adjustment of RMB65,407,000 on technical knowhow related to wafer-level glass molding.

30. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1st January, 2011, 31st December, 2011 and 31st December, 2012	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2011, 31st December, 2011 and 31st December, 2012	1,228,000,000	12,280

	RMB'000
At 1st January, 2011, 31st December, 2011 and 31st December, 2012	99,718

31. 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.

32. ACQUISITION OF A BUSINESS

Acquisition in 2011

The Group held 31.95% equity interest in an associate, Kaleido, as at 31st December, 2010. Pursuant to an agreement entered between the Company and other shareholders of Kaleido, the Company acquired a further 38.95% equity interest in Kaleido for a consideration of RMB43,839,000. The transaction was completed on 31st March, 2011 and Kaleido is treated as a subsidiary of the Company from that date.

Kaleido is a private company incorporated in Denmark and engaged in wafer-level glass molding. The goodwill of RMB8,705,000 arising from the acquisition is attributable to the future economic benefits that are expected to accrue to the Group from operating synergies and revenue growth.

The following table summarises the consideration paid for Kaleido and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Fair values RMB'000
The assets acquired and liabilities recognised at the date of acquisition were as follows:	
Property, plant and equipment	4,214
Intangible assets	74,623
Inventories	380
Trade and other receivables	15,479
Bank balances and cash	4,424
Trade and other payables	(2,912)
Deferred tax liabilities	(16,352)
	79,856
Goodwill arising on acquisition:	
Consideration	43,839
Add: Non-controlling interest	23,238
Fair value of previously held interest in Kaleido	21,484
Less: Net assets acquired	(79,856)
Goodwill arising on acquisition	8,705
Net cash outflow arising on acquisition:	
Cash consideration	(43,839)
Cash and cash equivalents acquired	4,424
Net outflow of cash and cash equivalents arising on acquisition	(39,415)

32. ACQUISITION OF A BUSINESS (CONTINUED)

Acquisition in 2011 (continued)

The non-controlling interest in Kaleido recognised at acquisition date was determined with reference to the proportionate share of the acquiree's net assets at the acquisition date.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The intangible assets represent technical know-how in relation to wafer-level glass molding which is used to enhance the Group's current products. The fair value is estimated by an independent and professionally qualified valuer and calculated using relief from royalty method based on the cash flow projection, royalty rate and discount rate adopted by the management.

The trade and other receivables acquired amounting to RMB15,479,000 represents the fair value and the gross contractual amount. The best estimate at the date of acquisition is that all receivables will be collected.

Acquisition-related costs amounting to RMB158,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the administrative expenses.

The fair value of the previously held interest held by the Group was estimated by an independent and professionally qualified valuer. The fair value estimates are calculated using discounted cash flow method based on cash flow projection, growth rate and discount rate adopted by the management. The Group recognised the non-controlling interests at the proportionate share of net assets of Kaleido.

The Group recognised a gain of RMB111,000 as a result of the remeasurement of previously held interest. The gain was included in other income for the period ended 30th June, 2011.

Kaleido contributed a revenue of RMB7,338,000 and a loss of RMB664,000 to the Group since the step acquisition.

Had Kaleido been consolidated from 1st January, 2011, the Group's consolidated statement of comprehensive income would have shown a revenue of RMB4,061,634,000 and the profit attributable to the equity holders of the Company would not be materially different.

33. 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within one year	**120**	108	**33,388**	16,203
In the second to fifth year inclusive	**–**	–	**25,144**	12,776
	120	108	**58,532**	28,979

Leases are negotiated and rentals are fixed for a lease term of 1 to 3 years.

34. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**172,103**	188,521

35. 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.

36. RELATED PARTY TRANSACTIONS

In addition to the related party transactions 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	2012 RMB'000	2011 RMB'000
Companies controlled by close family members of the substantial Shareholders of the Company (Note)	Purchase of raw materials	**61,936**	51,988
	Property rentals paid	**8,803**	7,037
	Sales of raw materials	**129**	76
	Purchase of patent	**–**	27,628
	Purchase of plant and machinery	**–**	22,857
Close family members of the substantial Shareholders of the Company (Note)	Property rentals paid	**3,336**	3,336
Substantial Shareholders (Note)	Property rentals paid	**261**	533

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

During the year ended 31st December, 2011, companies controlled by close family member of a Director of the Company, injected RMB38,596,000 into a subsidiary of the Group. The Group's equity interest in the subsidiary was diluted from 100% to 80.42%.

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 10.

Balances with related parties are disclosed in notes 20 and 23 to the consolidated financial statements.

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2012, 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 瑞聲聲學科技有限公司	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$33,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技（沭陽）有限公司 AAC Technologies (Shuyang) Co., Ltd. (note c)	PRC	Registered capital – US$9,000,000	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$72,800,000	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$23,000,000	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, research and development

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (note g)	PRC	Registered capital – RMB69,000,000	Provision of electroplating service
YEC Electronics Limited 香港遠宇電子有限公司	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Technologies (Shuyang) Co., Ltd. (note h)	PRC	Registered capital – US$44,980,000	Manufacture and sales of acoustic related accessories and components, research and development
瑞聲聲學科技(蘇州)有限公司 AAC Acoustic Technologies (Suzhou) Co., Ltd. (note i)	PRC	Registered capital – US$22,000,000	Manufacture and sales of electronic components and camera modules, research and development
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (note j)	PRC	Registered capital – US$100,000,000	Investment

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.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing 13th June, 2010.
(i) Wholly-owned foreign enterprise for a term of 15 years commencing 6th April, 2004.
(j) Wholly-owned foreign enterprise for a term of 30 years commencing 13th November, 2012.

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.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2012 RMB'000	2011 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,857
Current assets			
Other receivables		**284**	86
Amounts due from subsidiaries		**545,043**	659,885
Bank balances and cash		**1,787**	2,346
		547,114	662,317
Current liabilities			
Other payables		**1,305**	1,724
Amounts due to subsidiaries		**331,538**	576,368
		332,843	578,092
Net current assets		**214,271**	84,225
		1,386,128	1,256,082
Capital and reserves			
Share capital	30	**99,718**	99,718
Reserves		**1,286,410**	1,156,364
		1,386,128	1,256,082

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement of reserve

	Share capital RMB$'000	Share premium RMB$'000	Special reserve RMB$'000	Retained earnings RMB$'000	Total RMB$'000
At 1st January, 2011	99,718	746,957	33,428	(272,859)	607,244
Profit and total comprehensive income for the year	–	–	–	1,090,880	1,090,880
Dividend paid	–	–	–	(442,042)	(442,042)
At 31st December, 2011	99,718	746,957	33,428	375,979	1,256,082
Profit and total comprehensive income for the year	–	–	–	547,202	547,202
Dividend paid	–	–	–	(417,156)	(417,156)
At 31st December, 2012	99,718	746,957	33,428	506,025	1,386,128

39. EVENT AFTER THE END OF THE REPORTING PERIOD

On 10th January, 2013, the Group acquired additional interests in a non-wholly owned subsidiary of the Company. As a result of the acquisition, the difference of RMB14,482,000 between the consideration paid of RMB20,664,000 and the amount of non-controlling interests of RMB6,182,000 acquired was directly recognised in equity. The Group's equity interest in the subsidiary has been increased from 81.3% to 88.9% after the acquisition.

FINANCIAL SUMMARY

	Year ended 31st December,				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
RESULTS					
Revenue	2,256,022	2,203,143	3,349,020	4,059,687	**6,282,946**
Profit before taxation	616,241	676,474	1,099,138	1,141,559	**2,015,518**
Taxation	(25,638)	(66,674)	(111,661)	(108,626)	**(258,945)**
Profit for the year	590,603	609,800	987,477	1,032,933	**1,756,573**
Attributable to:					
Owners of the Company	590,434	614,957	986,730	1,036,192	**1,762,625**
Non-controlling interests	169	(5,157)	747	(3,259)	**(6,052)**
	590,603	609,800	987,477	1,032,933	**1,756,573**

	As at 31st December,				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
ASSETS AND LIABILITIES					
Total assets	3,704,217	4,253,666	5,583,819	6,714,226	**8,925,806**
Total liabilities	(589,014)	(718,909)	(1,407,928)	(1,902,804)	**(2,795,725)**
Net assets	3,115,203	3,534,757	4,175,891	4,811,422	**6,130,081**
Attributable to owners of the Company	3,107,768	3,534,376	4,174,545	4,750,070	**6,078,242**
Non-controlling interests	7,435	381	1,346	61,352	**51,839**
	3,115,203	3,534,757	4,175,891	4,811,422	**6,130,081**