AAC Acoustic Technologies Holdings Inc.
瑞声声学科技控股有限公司*

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

Annual Report 2010

* For identification purpose only

Contents

Corporate Information

DIRECTORS

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

Non-executive Directors
Ms. Ingrid Chunyuan Wu
Mr. Pei Kang (Retired on 22nd May, 2010)

Independent Non-executive Directors
Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua
(Appointed on 3rd May, 2010)

COMPANY SECRETARY

Mr. Lo Tai On (Appointed on 7th August, 2010)
Mr. Cheung Yuk Chuen
(Resigned on 7th August, 2010)

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
(Appointed on 3rd May, 2010)
Mr. Pei Kang (Resigned on 3rd May, 2010)

NOMINATION COMMITTEE

Dato' Tan Bian Ee (Chairman)
Mr. Poon Chung Yin Joseph
Ms. Chang Carmen I-Hua
(Appointed on 3rd May, 2010)
Mr. Pei Kang (Resigned on 3rd May, 2010)

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

PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

02018

WEBSITE

www.aacacoustic.com

Chairman's Statement

Dear Shareholders,

We delivered further growth in 2010. We started the year with good momentum from an improving worldwide economy at the end of 2009. In the interim, AAC Acoustic Technologies Holdings Inc. ("AAC" or the "Company") reported solid results for the first half of 2010, and in the second half of the year, we continued to grow with increased business from existing and newly-acquired customers. Particularly, the smart phone segment of the mobile phone market showed exciting growth and we were able to leverage on our technology capabilities to capture significant market share in this segment during 2010. In addition, as our customers adopted more of our various product categories in their design, we were able to deliver an increase in the average dollar-content of our products per device of our customers. This resulted in a strong financial performance for the year 2010.

We delivered significant increases in sales revenue and in both gross and net profit. Our sales revenue reached RMB3,349.0 million, 52.0% higher than our 2009 sales revenue of RMB2,203.1 million. Our overall gross profit rose to a record high of RMB1,510.4 million, representing an increase of 52.7% over 2009 gross profit of RMB989.1 million. During 2010, we booked a record high net profit for owners of the Company of RMB986.7million, which was 60.4% higher than RMB615.0 million in 2009. Basic earnings per share for 2010 were RMB80.35 cents versus RMB50.08 cents for 2009.

The Board will recommend the payment of a final dividend for the year ended 31st December, 2010 of HK23.7 cents per ordinary share. This final dividend, together with the interim dividend of HK14.2 cents, represents a payout ratio of about 40.0%.

During 2010, we recorded a gross margin of 45.1% and booked a net profit margin of 29.5%. The increase in gross margin and net margin, taking into account foreign currency impacts, was due to continuous process improvements, cost and expense controls as well as better utilization from increased business volume. The change in product mix was another important factor.

With this strong performance in the year, AAC improved its balance sheet. By the end of 2010, we had a total of RMB1.8 billion in cash and bank balances, and our net cash position was RMB1.7 billion.

Some of our achievements in 2010 are highlighted here:

- Increased business in existing leading global mobile phone customers, particularly in the smart phone sector
- Continued expansion of our product range with existing and new customers
- Increased business in new business sectors such as the electronic book reader segment
- Completed new strategic investments in international technology companies
- On-track progress of implementation of production automation programs

Towards the end of 2010, we have seen a consolidation in the global acoustic components industry. We believe that AAC, as one of the established leaders in the acoustic field, and, with our commitment to advancing our technology in all miniaturised technology components including and beyond the acoustic segment, is well-equipped to maintain and grow our market share in the components industry.

To position ourselves, we will continue to carry out further research in the following areas: (i) in the acoustic segment, the design and packaging of Micro Electro Mechanical Systems ("MEMS") microphones and technologies related to active noise-cancellation and sound projection, related digital processing methods and software development; (ii) in the optics segment, Voice Coil Motor ("VCM") auto-focus, lens design and related imaging technologies; and (iii) other miniaturized technology components such as vibrators, antennas, Low Temperature Co-fired Ceramics ("LTCC") technology for speakers, Radio Frequency ("RF") front-end module devices substrates and Light Emitting Diode ("LED") packaging.

In 2010, we successfully obtained 202 additional patents bringing our portfolio to a total of 416 patents. In 2010, we filed another 353 patents pending, which brings us to a total of 388 patents pending by the end of 2010. We also intend to strengthen our technology portfolio via strategic acquisitions and investments. Our management team is committed to seeking out appropriate acquisition and investment targets globally which can further strengthen the Company's existing technology bases. In 2010, we made an investment by acquiring a significant shareholding in a market leader in the technology and manufacturing of Xenon-based flash lamp and flash modules business in Singapore. In addition, our Company has also acquired a strategic initial investment in a global leader of wafer-level glass molding technology in Denmark, and, increased our investment in the wafer-level optic polymer on glass lens technology company by taking a larger shareholding. Together both these investments should advance our optical solution offering to customers.

In the year 2010, we have seen further growth of the smart phone segment in the mobile handsets and the emergence of PC tablet devices. As ever, the audio quality and the other functional features in these consumer devices (mobile handsets and smart phones, and, the other consumer electronic devices such as e-book readers and the new PC tablets) are increasingly important as our customers offer the latest design differentiation in their products. Our customers will require more advanced and cost effective technology solutions in the design of all components. We believe that AAC is well-positioned to further capture market share in the acoustic segment and to penetrate into other technology segments as we have been leveraging our focused research with product development capabilities, engineering expertise, and manufacturing know-how in providing the most advanced solutions in the technology components business.

AAC aims to become the world's leading miniature components total solution provider.

I am deeply grateful to all our staff and management for the efforts made in 2010 which led to a very satisfactory set of results. We also want to thank all our customers and suppliers for their continued support. And, many thanks to my Board members for their insightful guidance during the year. Finally, I would like to express our gratitude to Mr. Pei Kang for his invaluable contributions to the Board in the past few years, and at the same time, I welcome Ms. Chang Carmen I-Hua to join us as a fellow board member.

Koh Boon Hwee
Chairman

30th March, 2011

OVERVIEW

AAC is one of the world's foremost vertically integrated manufacturers of miniature components. Our Company designs, manufactures and distributes a comprehensive suite of receivers, speakers, speaker modules, multi-function devices, microphones, vibrators, headsets, antennas for use in mobile handsets, PC tablets, game consoles, notebook computers and other consumer electronics devices such as electronic book-readers, MP3 players and MP4 players. We offer a wide-ranging innovative technology design solutions covering mobile telecommunications, IT products, consumer electronics, home appliances, automobile and medical applications markets.

Besides growing organically with continuous development of intellectual property, we also intend to strengthen our technology portfolio through investments, mergers and acquisitions. Our management team is committed to identify and invest in appropriate global companies and technologies that further broaden and strengthen the Company's existing technology base.

MARKET REVIEW

The worldwide economy continued to grow from the strong recovery in the latter periods of the year 2009. Although the overall mobile handsets market grew modestly in the year, the smart phone segment within achieved a more-than-proportionate growth. Our quality miniature components landed us with new projects wins, and new programs designed-in at our key customers. We also broadened our product penetration into our existing and new customers. Our market share within the mobile telecommunications industry increased as a result of these successful efforts.

In order to maximize our potential, the Company continued to expand its market reach to include areas other than acoustic components solutions and mobile handset industry. Our solutions and markets expand to notebooks, personal navigation devices, digital cameras and camcorders, eBooks and the PC tablets markets. In 2010, we have delivered ceramic products such as ceramic speakers, filters and antennas derived from using technology acquired from our LTCC design and production knowhow.

The Company is highly committed in advancing our leadership in technology in miniaturized technology components segments beyond the acoustic segment by developing our in-house intellectual property. In 2010, we have successfully obtained 202 additional patents bringing our total portfolio to 416 patents. In total for the year 2010, we filed another 353 patents pending, which brings to 388 patents pending.

FINANCIAL REVIEW

With the successful performance this year, we achieved a strong financial position and we generated RMB877.4 million in net cash flows from operations for the year ended 31st December, 2010. Revenue of the Group for the year ended 31st December, 2010 amounted to RMB3,349.0 million, representing an increase of 52.0% from RMB2,203.1 million for the corresponding period of previous year. Gross profit amounted to RMB1,510.4 million, representing an increase of 52.7% from RMB989.1 million for the corresponding period of 2009. Profit attributable to owners of the Company amounted to RMB986.7 million, representing an increase of 60.4% from RMB615.0 million for the corresponding period of 2009. Basic earnings per share amounted to RMB80.35 cents, representing an increase of 60.4% from RMB50.08cents for the corresponding period of 2009.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the short-term bank loans by the total assets, as at 31st December, 2010 was 8.4% compared with 4.4% as at 31st December, 2009.

INDEBTEDNESS

As at 31st December, 2010, the Group had RMB470.3 million of short-term bank loans compared with RMB187.1 million as at 31st December, 2009.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2010, the Group had RMB1,734.6 million in cash and cash equivalents. In addition, the Group had pledged short-term bank deposits of RMB28.0 million. The Group had no long-term debt as at 31st December, 2010. The management believes the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements capital of the Group.

FOREIGN EXCHANGE

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

It is the Group's policy to centralize foreign 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. While a complete hedge is not possible, the Group will protect our anticipated foreign currency revenue with appropriate foreign exchange contracts.

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

During the year 2010, the Company has entered into foreign currency forward contracts to minimise the effect of exchange rate fluctuations between Euro and the United States Dollars ("US$").

CHARGES ON GROUP ASSETS

Apart from the bank deposits amounts of RMB28.0 million and RMB10.4 million pledged to banks respectively as at 31st December, 2010 and 31st December, 2009, no Group asset was under charge to any financial institution.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

Acquisition of a subsidiary

In 2010, the Group acquired a 96.4% share capital in I. Square Research Co., Ltd. ("I. Square"), a Japanese lens design consultancy company for the consideration of RMB12.3 million. The purchase consideration was based on net book value of the net assets at the date of acquisition. At acquisition, I. Square was not engaged in any business activity and therefore the acquisition was accounted for as acquisition of assets and assumed liabilities.

The goodwill of RMB1.3 million was attributed to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

Investment in associates

In June 2010, the Group acquired a 32.0% equity interest in Kaleido Technology ApS ("Kaleido"), a private company incorporated in Denmark, engaged in wafer-lever glass molding and a 39.2% equity interest in Xenon Technology (Cayman) Limited ("Xenon"), a private company incorporated in the Cayman Islands, engaged in the design and manufacture of Xenon-based flash lamp and flash modules used in consumer photography, for a total consideration of RMB75.2 million.

EMPLOYEE INFORMATION

As at 31st December, 2010, the Group employed 12,431 permanent employees. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises the work performance of its staffs. 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.

PROSPECTS

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

In addition to our sizeable market share in acoustic and vibrator product segments, we are also addressing potential markets of other miniature components. For instance, optical components are widely used in all kinds of consumer electronics, enabling customers to capture quality images; wireless transmission antenna components enable complex and fast data signal transmission, Ultimately, our goal is to become one of the world's leading micro components, and total solution providers for manufacturers of all kinds of consumer electronic devices.

DIVIDENDS

From time to time, the Company will consider the declaration of dividend based on its financial position, results of operations, debt repayment ability, capital expenditures, Group's earnings and other factors as the Board may deem appropriate. The Board may recommend the amount of dividend to be declared, and the declaration and payment of dividends will be determined by the shareholders in general meeting.

During the six months ended 30th June, 2010, a final dividend for the year ended 31st December, 2009 of HK15.5 cents per share was paid to shareholders.

During the six months ended 31st December, 2010, an interim dividend in respect of the six months ended 30th June, 2010 of HK14.2 cents (2009: HK7.2 cents) per share was paid to shareholders.

The Board recommended the payment of a final dividend of HK23.7 cents (2009: HK15.5 cents) per ordinary share in respect of the year ended 31st December, 2010. This final dividend together with the interim dividend represents a total payout ratio of about 40.0% of the profit attributable to owners of the Company for the year.

Subject to the shareholders' approval at the forthcoming annual general meeting, the said final dividend will be paid to shareholders of the Company, whose names appeared on the registers of members of the Company on 21st May, 2011 and payable on or about 7th June, 2011.

EXECUTIVE DIRECTOR

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 42, is an executive Director and chief executive officer of the Company. Mr. Pan co-founded the Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing the Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing, and other functions including quality assurance, finance and human resources. Mr. Pan has been instrumental in spearheading the Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and Chief Executive Officer of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("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 Listing Rules) of the Group. Save as aforesaid, Mr. Pan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years but he has directorship in a number of subsidiaries of the Company.

Mr. Pan has entered into a service agreement with the Company for a term of three years commencing from 15th July 2008. His appointment may be terminated by either party giving not less than 60 days' notice in writing or 60 days' payment in lieu of notice to the other party. He 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 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	533,886,532 (Note)	43.48%

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) 295,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 295,820,525 shares; and

(iii) 117,114,002 shares representing the aggregate of (a) 112,375,158 shares which are deemed to be interested by Mr. Pan 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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 47, is an executive Director and the chief financial officer 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.

Mr. Mok has entered into a service agreement with the Company for a term of three years commencing from 5th October 2009. His appointment may be terminated by either party giving not less than 60 days' notice in writing or 60 days' payment in lieu of notice to the other party. He 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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

NON-EXECUTIVE DIRECTOR

Ms. Ingrid Chunyuan Wu ("Ms. Wu"), aged 40, is a non-executive Director of the Company. She is also a member of the audit committee of the Company. Ms. Wu co-founded the Group in 1993. In 1996, she co-founded and later became chief financial officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, 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, chief executive officer and a substantial shareholder of the Company.

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

Ms. Wu has entered into a letter of appointment with the Company for a term of two years commencing from 16th April 2009. Her appointment may be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. She 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$25,000 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	533,886,532 (Note)	43.48%

Note:

Ms. Wu beneficially owns 295,820,525 shares. In addition, Ms. Wu is 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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 60, is the Chairman of the Board and an independent non-executive Director. He is chairman of remuneration committee and member of 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 of Sunningdale Tech Ltd, Yeo Hiap Seng Limited and Yeo Hiap Seng (Malaysia) Berhad. Mr. Koh also serves on the board of Agilent Technologies, Inc and is a Director of the Hewlett Foundation in the United States. Mr. Koh is also the Chairman of the Nanyang Technological University Board of Trustees. Mr Koh was previously Chairman of DBS Group Holdings Ltd and DBS Bank 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), Executive Chairman of Wuthelam Holdings Pte Limited (1991-2000) and, before that, Managing Director of Hewlett Packard Singapore (1985-1990), where he started his career in 1977. Mr Koh 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.

Mr. Koh has entered into a letter of appointment with the Company for a term of two years commencing from 16th April 2009. His appointment may be terminated by either party giving at least one month's notice in writing or such shorter period as both parties may agree. He 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$60,000 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/ personal interest	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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Dato' Tan Bian Ee ("Dato' Tan"), aged 64, 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 recently on 18 February 2010, re-appointed as the chief executive officer 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.

Dato' Tan has entered into a letter of appointment with the Company for a term of two years commencing from 11th September 2009, which can be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree. He 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$30,000 per year (which is covered in the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dato' Tan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. 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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Mr. Poon Chung Yin Joseph ("Mr. Poon"), aged 56, 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.

Mr. Poon has entered into a letter of appointment with the Company for a term of two years commencing from 5th October 2009. His appointment may be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree. He 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$45,000 per year (which is covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Poon and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to shareholders' approval at the annual general meeting.

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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Ms. Chang Carmen I-Hua ("Ms. Chang"), aged 63, 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. She is a partner at Wilson Sonsini Goodrich & Rosati, where she specializes in corporate and securities law and is the leader of the firm's China practice. Ms. Chang's practice focuses 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 People's Republic of China (the "PRC"), Taiwan, and other Asian countries. Among many other transactions, Ms. Chang represented Semiconductor Manufacturing International Corporation ("SMIC") in its acquisition of Motorola's manufacturing operation in Tianjin—the first mergers-and-acquisitions ("M&A") transaction in China after the PRC put its M&A rules in place. Ms. Chang rejoined the firm from Shearman & Sterling, where she was a partner in its Menlo Park office. Prior to joining Shearman & Sterling, Ms. Chang had been a partner at Wilson Sonsini Goodrich & Rosati, focusing on building the firm's Asia practice. As a well-regarded expert in corporate and securities law and cross-border transactions, Ms. Chang is a frequent writer and speaker on the topic of conducting business in Asia, as well as on the legal and business regulations faced by foreign companies when they conduct business in the United States of America.

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 he does not hold any other position in the Group.

Ms. Chang has entered into a letter of appointment with the Company for a term of two years commencing from 3rd May 2010. Her appointment may be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree. She 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$25,000 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 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.

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 are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

SENIOR MANAGEMENT

Mr. Du Kuang-Yang ("Mr. Du"), aged 61, is the chief operating officer of the Company. Mr. Du has over 30 years' managerial experience in electronics manufacturing industry. From 2001 to 2005, Mr. Du was Vice President of Supply Chain Management of Solectron (Suzhou) Technology Co., Ltd.. From 1988 to 2001, Mr. Du worked for Motorola's various subsidiaries where he was the managing director of components products sector for Motorola's Tianjin subsidiary and general manager of Personal Communication Sector for Motorola's Taiwan subsidiary. Mr. Du obtained a certificate in business administration from the National Taichung Institute of Technology (previously known as 台灣省立台中商業專科學校 (Taiwan Provincial School of Commerce of Tai-Chung) in Taiwan in 1971. Mr. Du joined the Group in March 2005.

Mr. David Plekenpol ("Mr. Plekenpol") aged 51, is the chief strategy officer of the Company. Mr. Plekenpol has spent the past sixteen years in the telecom industry, with executive positions in both Lucent and Alcatel. He founded two Silicon Valley VC-backed startup companies, led sales & marketing for an optical component startup in Scotland and spent two years with a VC-backed Chinese mobile design startup in Shanghai before joining AAC. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University. Mr. Plekenpol also serves as chairman of the Board of the Community Center Shanghai. Mr. Plekenpol joined AAC in February 2010.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 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 36.

An interim dividend of HK14.2 cents was paid during the year. The Directors have resolved to recommend the payment of a final dividend of HK23.7 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 13 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the share premium accounts and the contributed surplus less deficit which amounted to RMB507,526,000 (2009: RMB854,983,000). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS AND SERVICE CONTRACTS

The Directors 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 Directors:
Ms. Ingrid Chunyuan Wu
Mr. Pei Kang (Retired on 22nd May, 2010)

Independent non-executive Directors:
Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua (Appointed on 3rd May, 2010)

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

Mr. Pan has entered into a service agreement with the Company for a term of three years from 15th July, 2008, subject to termination by either party giving not less than 60 days' prior notice in writing or 60 days' payment in lieu of notice.

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

Each of Ms. Wu and Mr. Koh has entered into a letter of appointment with the Company for a term of two years from 16th April, 2009, subject to termination by either party giving at least one month's prior notice in writing or such shorter period as both parties may agree.

Mr. Pei Kang has entered into a letter of appointment with the Company for a term of two years from 15th February, 2009, subject to termination by either party giving no less than one month's prior notice in writing or such shorter period as both parties may agree. Mr. Pei Kang retired as a non-executive Director of the Company at the annual general meeting held on 22nd May, 2010.

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

Mr. Poon has entered into a letter of appointment with the Company for a term of two years commencing from 5th October, 2009, which can be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree.

Ms. Chang has entered into a letter of appointment with the Company for a term of two years commencing from 3rd May, 2010, which can be terminated by either party giving at least three months' notice in writing or such shorter period as both parties may agree.

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

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

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 9 to 16.

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

As at 31st December, 2010, the beneficial interests of the Directors and chief executives in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

		Name of ordinary shares						
Name of Director	Capacity	Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests	Total number of ordinary shares	Percentage of the Company's issued share capital
Mr. Pan (1)	Beneficial owner/ interest of child under 18 and spouse/ interest of controlled corporation/ personal and family interest	69,512,565	–	51,439,440	295,820,525	117,114,002	533,886,532	43.48%
Ms. Wu (2)	Beneficial owner/ interest of child under 18 and spouse/ personal and family interest	295,820,525	–	–	120,952,005	117,114,002	533,886,532	43.48%
Mr. Koh	Beneficial owner/ personal interest	1,307,562	–	–	–	–	1,307,562	0.11%

Notes:

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

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

(ii) 295,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 295,820,525 shares; and

(iii) 117,114,002 shares representing the aggregate of (a) 112,375,158 shares which are deemed to be interested by Mr. Pan 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 295,820,525 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, 2010, none of the directors, chief executives nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEME

Details of the Company's share option scheme adopted on 15th July, 2005 are set out in note 27 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) Five purchase agreements were entered into between the Group (AAC Acoustic Technologies (Changzhou) Co., Ltd. ("AAC Changzhou"), American Audio Components (Changzhou) Co., Ltd. ("Audio Changzhou"), AAC Shenzhen, AAC Technologies (Shuyang) Co., Ltd. ("AAC Shuyang") and AAC Microtech (Changzhou) Co., Ltd. ("Microtech Changzhou")) and Wujin Hutang Hejia Hongguang Stamping Factory, a company wholly owned by mother of Ms. Wu, on 1st January, 2008 (the "HGCJ Agreements"). The term of the HGCJ Agreement is for a term of three years commencing from 1st January, 2008 and expiring on 31st December, 2010. The Board expects the annual purchase amount under the HGCJ Agreements will not exceed RMB9.0 million, RMB9.5 million and RMB10.0 million for the three years ending 31st December, 2010.

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

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

(4) Four purchase agreements were entered into between the Group (Audio Changzhou, Microtech Changzhou, AAC Changzhou and AAC Shuyang) and Changzhou Yousheng Electronics Co., Ltd., a company owned as to 30% by mother of Mr. Pan and 70% by sister of Mr. Pan, on 20th December, 2008 (the "Yousheng Agreements"). The term of the Yousheng Agreements is for a term of three years commencing from 20th December, 2008 and expiring on 31st December, 2010. The Board expects the annual purchase amount under the Yousheng Agreements will not exceed RMB13.5 million for the year ending 31st December, 2010.

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

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

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

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

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

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

The Directors believe that the entering into of each of Suzhou Xinkai Agreements, Yousheng agreement, HGCJ Agreements and Changzhou Model Agreements facilitates the operation of the Group as the materials purchases and/or to be purchased by the Group from such parties are essential to the production of the Group's products. In terms of the Shenzhen Yuanyu Agreements, 2009 Wu's Mother Agreement and Changzhou LFY Agreements, the Directors believe that the entering into of such agreements would allow the Group to continue its production activities at such locations which are located in close proximity to other facilities of the Group. As such, the Directors (including the independent nonexecutive Directors) consider that the entering into of the aforementioned agreements is beneficial to the overall business and operation of the Group. Details of the above are set out in the Company's announcement dated 14th May, 2008, 23rd December, 2008, 22nd January, 2010 and 9th April, 2010.

As some of the agreements referred to therein will either expire on 31st December, 2010 or be early terminated, the Group has entered into the following agreements in December 2010, some of which are subject to the Board's approval, with associate(s) of connected person(s) of the Company, which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of which are set out in the company's announcement dated 28th December, 2010.

(i) In order to facilitate the entering into of the New Shenzhen Yuanyu Agreement, the Extended Shenzhen Yuanyu Agreement has been early terminated with effect from 31st December, 2010 onwards and its principal terms have been incorporated into the New Shenzhen Yuanyu Agreement for a period of three years commencing on 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New Shenzhen Yuanyu Agreement, the annual caps in respect of the annual rent payable under the New Shenzhen Yuanyu Agreement will be and will not exceed RMB 4.8 million for each of the three years ending 31st December, 2013 respectively.

(ii) In view of the expiry date of the 2009 Wu's Mother Agreement being 31st December, 2010, on 4th November, 2010 and 28th December, 2010, member of the Group (AAC Shenzhen) and Ms. Wu's Mother entered into the New Wu's Mother Agreements, pursuant to which Wu's Mother agreed to lease the properties, located at Nanyou Tian'an Industry Zone, Nanshan, Shenzhen, PRC, to the Group as part of its factory for a period of three years commencing on 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New Shenzhen Yuanyu Agreement, the annual caps in respect of the annual rent payable under the New Wu's Mother Agreements will be and will not exceed RMB 3.4 million for each of the three years ending 31st December, 2013 respectively.

(iii) In view of the latest expiry date among the Revised Changzhou LFY Agreements being 31st December, 2010, on 20th December, 2010, members of the Group and Changzhou LFY entered into the New Changzhou LFY Agreements, pursuant to which, Changzhou LFY agreed to lease the properties located in Changzhou, Jiangsu Province to the Group as part of its factory for a period of three years commencing on 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New Changzhou LFY Agreements, the annual caps in respect of the annual rent payable under the New Changzhou LFY Agreements will be and will not exceed RMB 1.5 million for each of the three years ending 31st December, 2013 respectively.

(iv) In view of the expiry date of the Existing HGCJ Agreement being 31st December, 2010, on 17th December, 2010, the Group (AAC Changzhou, Audio Changzhou, AAC Shenzhen, AAC Shuyang and Microtech Changzhou) entered into the New HGCJ Agreement with HGCJ for the purchase of packaging and stamping materials by the Group from HGCJ for a term of three years commencing on 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New HGCJ Agreement, the annual caps in respect of the annual rent payable under the New HGCJ Agreement will be and will not exceed RMB 6.5 million, 8.5 million and 11 million for each of the three years ending 31st December, 2013 respectively.

(v) In view of the expiry date of the Existing Yousheng Agreement being 31st December, 2010, on 16th December, 2010, the Group (AAC Changzhou, Audio Changzhou, AAC Shenzhen, AAC Shuyang and Microtech Changzhou) entered into the New Yousheng Agreement with Changzhou Yousheng for the purchase of parts such as domes, ear cushions, insulation mats and resistance need for use in acoustic components by the Group from Yousheng for a term of three years commencing on 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New Yousheng Agreement, the annual caps in respect of the annual rent payable under the New Yousheng Agreement will be and will not exceed RMB 24 million, 32 million and 42 million for each of the three years ending 31st December, 2013 respectively.

(vi) In view of the expiry date of the Existing Changzhou Model Agreement being 31st December, 2010, on 16th December, 2010, the Group (AAC Changzhou, Audio Changzhou, AAC Shenzhen, AAC Shuyang and Microtech Changzhou) entered into New Changzhou Model Agreement with Changzhou Model for the purchase of processed supplement materials used in the manufacturing process (e.g. models and stamping components of acoustic products) by the Group from Changzhou for a term of three years commencing from 1st January, 2011 and expiring on 31st December, 2013. Based on the terms set out in the New Changzhou Model Agreement, the annual caps in respect of the annual rent payable under the New Changzhou Model Agreement will be and will not exceed RMB 25 million, 32.5 million and 43 million for each of the three years ending 31st December, 2013 respectively.

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

The 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, 2010 disclosed by the Group from pages 20 to 24 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 of Hong Kong Limited. The continuing connected transactions entered into by the Group for the year ended 31st December, 2010:

(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, 2010 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2010, the register of interests and short positions kept by the Company under section 336 of the SFO other than the directors and chief executives, showed that the following persons held interests or short positions in the Company's shares:

Name of shareholder	Number of shares	Percentage of the Company's issued share capital
J.P. Morgan Chase & Co. (1)	195,927,602 (L)	15.96%
	78,793,600 (P)	6.42%
Capital Research and Management (2)	110,278,100 (L)	8.98%
Credit Suisse Group (3)	93,600,000 (L)	7.62%
	93,600,000 (S)	7.62%
Wellington Management Company, LLP	63,935,868 (L)	5.21%

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

(1) J.P. Morgan Chase & Co. through its various controlled corporations is interested in an aggregate of 195,927,602 shares of the Company.

(i) 78,793,600 shares are directly held by JP Morgan Chase Bank, N.A., J.P. Morgan Chase & Co. is deemed to be interested in these78,793,600 shares by virtue of its 100% interest in JP Morgan Chase Bank, N.A.

(ii) 117,114,002 shares are directly held by J.P. Morgan International Bank Limited, by virtue of JP Morgan Overseas Capital Corporation's 100% interest in J.P. Morgan International Bank Limited, J.P. Morgan International Finance Limited's 100% interest in JP Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in JP Morgan International Finance Limited, J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, J.P. Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., each of JP Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JP Morgan Chase Bank, N.A., and J.P. Morgan Chase & Co. are deemed to be interested in these 117,114,002 shares.

(iii) 20,000 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 JP Morgan Overseas Capital Corporation, Bank One International Holdings Corporation's 100% interest in JP Morgan International Finance Limited., J.P. Morgan International Inc.'s 100% interest in Bank One International Holdings Corporation, J.P. Morgan Chase Bank, N.A.'s 100% interest in J.P. Morgan International Inc., J.P. Morgan Chase & Co.'s 100% interest in JP Morgan Chase Bank, N.A., each of JP Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited., Bank One International Holdings Corporation, J.P. Morgan International Inc., JP Morgan Chase Bank, N.A., and J.P. Morgan Chase & Co. are deemed to be interested in these 20,000 shares.

Comprising 78,793,600 shares in the lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

(2) By virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Research and Management Company, each of Capital Research and Management Company and The Capital Group Companies, Inc. is deemed to be interested in 110,278,100 shares in the Company directly held by Capital Research and Management Company.

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

Save as the interests and short positions disclosed above, as at 31st December, 2010, so far as was known to any director of the Company, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who where interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 27 to the consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the year ended 31st December, 2010

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 74.3% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 31.3% of the Group's total sales.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the years, no directors 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, 2010.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of a significant event occurring after the end of the reporting period are set out in note 35 to the consolidated financial statement.

AUDITOR

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

On behalf of the Board

KOH BOON HWEE
Chairman

30th March, 2011

CORPORATE GOVERNANCE PRACTICES

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

The Board has reviewed its corporate governance practices and ensured that they are in compliance with the code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended 31st December, 2010.

DIRECTORS' SECURITIES TRANSACTIONS

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

In addition, the Board also established written guidelines on no less exacting than the Model Code for the relevant employees of the Group in respect of their dealings in the securities of the Company.

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, 2010.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

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

BOARD OF DIRECTORS

The Board currently comprises two executive Directors, a non-executive Director and four independent non-executive Directors. The Board members and the terms of appointment of the Directors are set out in the "Director and service contracts" section of the "Directors' Report" on pages 17 to 18 of this announce report. In accordance with the Company's articles of association, 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, which complies with the code provision A.4.2 of the CG Code.

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 9 to 16 of this announce report. Except for the family relationship between Mr. Pan and Ms. Wu, no disclosed in Directors' biographical information on pages 9 to 16 of this announce report, there is no friend business, family or other material relationship between any members of the Board.

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

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

Independent Non-executive Directors

The Company has received, from each of the independent non-executive Director, an annual written confirmation of his/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, 2010, the Board convened a total of 8 meetings and the attendance of the Directors at these Board meetings are as follows:

Directors	Attendance
Executive Directors	
Mr. Benjamin Zhengmin Pan (Chief Executive Officer)	6/8
Mr. Mok Joe Kuen Richard	8/8
Non-executive Directors	
Ms. Ingrid Chunyuan Wu	6/8
Mr. Pei Kang (Retired on 22nd May, 2010)	1/3
Independent Non-executive Directors	
Mr. Koh Boon Hwee (Chairman)	6/8
Mr. Poon Chung Yin Joseph	5/8
Dato' Tan Bian Ee	5/8
Ms. Chang Carmen I-Hua (Appointed on 3rd May, 2010)	3/6

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in April 2005 and is chaired by Mr. Poon (an independent non-executive Director with two other members, Mr. Koh (an independent non-executive Director) and Ms. Wu (a non-executive Director).

The primary responsibilities of the Audit Committee are to assist the Board oversight of the integrity of the Company's financial statements, compliance with legal and regulatory requirements, the external auditors' qualifications and independence, and, the performance of the internal audit function and the external auditors. The Audit Committee reviewed the quarterly financial results, interim report for the year of 2010 as well as the annual report of the Company of the year 2009 during the year under review which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

During the financial year ended 31st December, 2010, the Audit Committee held 4 meetings and the Audit Committee meets as and when required. Details of the attendance of its meetings are as follows:

Members	Attendance
Mr. Poon Chung Yin Joseph	4/4
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	2/4

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established in April 2005 and is chaired by Dato' Tan (an independent non-executive Director), with two other members, Mr. Poon (an independent non-executive Director), Ms. Chang (an independent non-executive Director and appointed as a Director on 3rd May, 2010), and Mr. Pei Kang (a non-executive Director and resigned on 3rd May, 2010).

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

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

The Nomination Committee convened 1 meeting during the year ended 31st December, 2010 to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. Details of the attendance of its meetings are as follows:

Members	Attendance
Dato' Tan Bian Ee (Appointed as the chairman of the Nomination Committee)	1/1
Mr. Poon Chung Yin Joseph	1/1
Ms. Chang Carmen I-Hua (an independent non-executive Director and appointed as a member on 3rd May, 2010)	–
Mr. Pei Kang (a non-executive Director and resigned on 3rd May, 2010)	1/1

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in April 2005 and is chaired by Mr. Koh (an independent non-executive Director) with two other members, Dato' Tan (an independent non-executive Director), Ms. Chang (an independent non-executive Director and appointed as a member on 3rd May, 2010), and Mr. Pei Kang (a non-executive Director and resigned on 3rd May, 2010).

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

The Remuneration Committee convened 1 meeting during the year ended 31st December, 2010 to review the remuneration package of the Board and the senior management and to determine the remuneration of the newly appointed Director. Details of the attendance of its meetings are as follows:

Members	Attendance
Mr. Koh Boon Hwee	1/1
Dato' Tan Bian Ee	1/1
Ms Chang Carmen I-Hua (an independent non-executive Director and appointed as a member on 3rd May, 2010)	–
Mr. Pei Kang (a non-executive Director and resigned on 3rd May, 2010)	1/1

Emolument policy

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

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

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees. Details of the share option scheme are set out in note 27 to the financial statements.

AUDITOR'S REMUNERATION

During the year ended 31st December, 2010, the services provided to the Company by its external auditor, Messrs. Deloitte Touche Tohmatsu, and the respective fee paid is set out below:

Type of services	2010 HK$'000
Audit services	2,580
Non-audit services	
Interim review	693
Total	3,273

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for overseeing the Group's system of internal controls and ensures sound and effective internal control to safeguard the Shareholders' investment and the assets of the Group. During the year ended 31st December, 2010, the Board had reviewed the effectiveness of the internal control system and ensured that the internal control process had been properly carried out in making the investment decision and adequacy of resources, qualifications and experience of staff and the Group's accounting and financial reporting were maintained properly. The Board considers that the Group's internal control system covers all material aspects, including financial, operational, risk management functions and which compliance with all relevant regulations.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Reporting responsibilities of the Directors and the auditor of the Company are set out on page 34 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, 2010 in accordance with International Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTMENT COMMUNITY

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

In each general meeting held during the year ended 31st December, 2010, the Board had ensured that:

- adequate notice period and all the relevant materials were given and sent to the Shareholders before the general meeting; and
- Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Share Registrar, acted as scrutineer in each occasion for all vote cast at the general meeting.
- The chairman of the meeting explains the details procedures for conducting a poll at the commencement of the general meeting.

In additional, 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 two-way 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 investor relations team is committed to meeting shareholders' and investors' requests on business-related information in a timely manner, and at the same time proactively communicates 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 senior management on a regular basis to keep executives informed of the latest perceptions in the market regarding the Company and the issues of concern to shareholders and investors.

The Company analyses its shareholding structure on a regular basis, including a review of the registry of institutional and retail investors, to keep track of changes in shareholdings by type of investor. This helps the Company meet its goal of establishing sound relationships with existing and potential shareholders and maintaining a solid and diverse shareholder base.

During 2010, the Company held a series of activities in relation to its quarterly and annual results announcements, including panel discussions with shareholders and investors via teleconferencing and during roadshows in Hong Kong and other parts of the world. In the year, the Company has participated in 18 conferences, forums and roadshows organized by investment banks. Factory visits were also organized for the investment community.

The Company will continue its efforts in maintaining good relationship with shareholders and investors through multiple channels.

The chairman of the Board, and the chairman or representative of all committees will be available to answer questions at the annual general meeting held on 21st May, 2011.

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

Deloitte.
德勤

TO THE SHAREHOLDERS OF
AAC ACOUSTIC TECHNOLOGIES HOLDINGS INC.
瑞聲聲學科技控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of AAC Acoustic Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 85 which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the 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.

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, 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30th March, 2011

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue	6	**3,349,020**	2,203,143
Cost of goods sold		**(1,838,655)**	(1,214,054)
Gross profit		**1,510,365**	989,089
Other income		**46,744**	27,898
Net fair value (loss) gain on foreign currency forward contracts		**(611)**	6,358
Gain on deregistration/disposal of a subsidiary		**583**	1,373
Distribution and selling expenses		**(110,023)**	(79,540)
Administrative expenses		**(126,886)**	(104,590)
Research and development costs		**(213,636)**	(159,105)
Share of results of associates		**810**	–
Exchange (loss) gain		**(4,936)**	1,390
Finance costs	7	**(3,272)**	(4,035)
Other expenses		**–**	(2,364)
Profit before taxation	8	**1,099,138**	676,474
Taxation	10	**(111,661)**	(66,674)
Profit for the year		**987,477**	609,800
Other comprehensive income and expense:			
Exchange differences arising from translation		**(28,854)**	4,686
Exchange difference released on deregistration/ disposal of a subsidiary		**(583)**	2,971
Other comprehensive income and expense		**(29,437)**	7,657
Total comprehensive income and expense for the year		**958,040**	617,457
Profit attributable to:			
Owners of the Company		**986,730**	614,957
Non-controlling interests		**747**	(5,157)
		987,477	609,800
Total comprehensive income and expense attributable to:			
Owners of the Company		**957,205**	622,484
Non-controlling interests		**835**	(5,027)
		958,040	617,457
Earnings per share – Basic	12	**RMB80.35 cents**	RMB50.08 cents

Consolidated Statement of Financial Position

At 31st December, 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,751,559**	1,364,170
Goodwill	14	**6,753**	5,405
Prepaid lease payments	15	**98,278**	67,122
Deposits made on acquisition of property, plant and equipment		**153,367**	29,904
Deposits paid for additional interests in an associate		**26,417**	–
Available-for-sale investments	16	**–**	27,676
Interests in associates	17	**103,749**	–
Intangible assets	18	**41,325**	26,708
		2,181,448	1,520,985
Current assets			
Inventories	19	**342,943**	230,206
Trade and other receivables	20	**1,292,678**	729,162
Amounts due from related companies	21	**173**	19,180
Foreign currency forward contracts	22	**585**	6,322
Taxation recoverable		**3,348**	2,169
Pledged bank deposits	23	**28,035**	10,430
Bank balances and cash	23	**1,734,609**	1,735,212
		3,402,371	2,732,681
Current liabilities			
Trade and other payables	24	**857,391**	481,960
Amounts due to related companies	21	**16,423**	8,965
Taxation payable		**54,597**	37,977
Foreign currency forward contracts	22	**9,231**	2,912
Short-term bank loans	25	**470,286**	187,095
		1,407,928	718,909
Net current assets		**1,994,443**	2,013,772
Net assets		**4,175,891**	3,534,757

Consolidated Statement of Financial Position

At 31st December, 2010

	NOTES	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	26	**99,718**	99,718
Reserves		**4,074,827**	3,434,658
Equity attributable to owners of the Company		**4,174,545**	3,534,376
Non-controlling interests		**1,346**	381
Total equity		**4,175,891**	3,534,757

The consolidated financial statements on pages 36 to 85 were approved and authorised for issue by the Board of Directors on 30th March, 2011 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, 2010

	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, 2009	99,718	746,957	(7,469)	23,391	(26,118)	87,245	151,040	2,033,004	3,107,768	7,435	3,115,203
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	4,556	–	–	–	4,556	130	4,686
Reserve released on disposal of a subsidiary	–	–	–	–	2,971	–	–	–	2,971	–	2,971
Profit for the year	–	–	–	–	–	–	–	614,957	614,957	(5,157)	609,800
Total comprehensive income and expense for the year	–	–	–	–	7,527	–	–	614,957	622,484	(5,027)	617,457
Dividend paid	–	–	–	–	–	–	–	(195,876)	(195,876)	–	(195,876)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(3,027)	(3,027)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	1,000	1,000
Transfers	–	–	–	–	–	–	12,653	(12,653)	–	–	–
At 31st December, 2009	99,718	746,957	(7,469)	23,391	(18,591)	87,245	163,693	2,439,432	3,534,376	381	3,534,757
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	(28,942)	–	–	–	(28,942)	88	(28,854)
Reserve released on deregistration of a subsidiary	–	–	–	–	(583)	–	–	–	(583)	–	(583)
Profit for the year	–	–	–	–	–	–	–	986,730	986,730	747	987,477
Total comprehensive income and expense for the year	–	–	–	–	(29,525)	–	–	986,730	957,205	835	958,040
Dividend paid	–	–	–	–	–	–	–	(317,036)	(317,036)	–	(317,036)
Deregistration of a subsidiary	–	–	8,604	–	–	–	(5,377)	(3,227)	–	–	–
Addition on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	130	130
Transfers	–	–	–	–	–	–	2,195	(2,195)	–	–	–
At 31st December, 2010	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

The PRC statutory reserve comprises 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 People's Republic of China (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 capitalization issue.

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before taxation	**1,099,138**	676,474
Adjustments for:		
Interest income	**(23,032)**	(15,646)
Interest expense	**3,272**	4,035
Depreciation	**188,966**	163,055
Amortisation of intangible assets	**8,022**	6,871
Net fair value loss (gain) on foreign exchange currency forward contracts	**611**	(6,358)
Gain on deregistration/disposal of a subsidiary	**(583)**	(1,373)
Fair value gain on foreign exchange linked notes	**–**	(44)
Operating lease rentals in respect of prepaid lease payments	**1,703**	1,801
Loss on disposal of property, plant and equipment	**2,639**	883
Share of results of associates	**(810)**	–
Allowance for bad and doubtful debts	**17**	1,481
Reversal of allowance for bad and doubtful debts	**–**	(1,146)
Provision for obsolete stock	**7,245**	–
Operating cash flows before movements in working capital	**1,287,188**	830,033
(Increase) decrease in inventories	**(119,970)**	65,556
Increase in trade and other receivables	**(585,566)**	(153,008)
Increase in trade and other payables	**351,265**	117,449
Increase in amounts due to related companies	**7,458**	–
Repayment from related companies	**19,007**	–
Amount received on settlement of foreign currency forward contracts	**11,445**	2,948
Cash from operations	**970,827**	862,978
Taxation paid	**(93,413)**	(41,924)
Net cash from operating activities	**877,414**	821,054

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	NOTE	2010 RMB'000	2009 RMB'000
Investing activities			
Interest received		**23,032**	15,646
Advance to related companies		**–**	(28)
Proceeds from disposal of property, plant and equipment		**2,155**	–
Purchase of property, plant and equipment		**(550,022)**	(182,503)
Deposits paid on acquisition of property, plant and equipment		**(153,367)**	(29,904)
Deposits paid for additional interests in an associate		**(26,417)**	–
Acquisition of associates		**(75,263)**	–
Prepaid rentals on land use rights		**(32,859)**	–
(Increase) decrease in pledged bank deposits		**(17,605)**	6,194
Acquisition of a business (net of cash and cash equivalent acquired)	28	**(2,406)**	–
Proceeds received upon maturity of foreign exchange linked notes		**–**	80,953
Repayment from a minority shareholder of a subsidiary		**–**	2,971
Net proceeds from disposal of a subsidiary (net of cash and cash equivalent disposed)		**–**	1,366
Acquisition of available-for-sale investments		**–**	(27,676)
Additions to intangible assets		**–**	(4,453)
Net cash used in investing activities		**(832,752)**	(137,434)
Financing activities			
Bank loans raised		**676,777**	123,876
Repayment of bank loans		**(398,000)**	(137,252)
Dividend paid		**(317,036)**	(195,876)
Interest paid		**(3,272)**	(4,035)
Repayment to related companies		**–**	(812)
Capital contribution from a minority shareholder of a subsidiary		**–**	1,000
Net cash used in financing activities		**(41,531)**	(213,099)
Net increase in cash and cash equivalents		**3,131**	470,521
Cash and cash equivalents at 1st January		**1,735,212**	1,266,011
Effect of foreign exchange rate changes		**(3,734)**	(1,320)
Cash and cash equivalents at 31st December		**1,734,609**	1,735,212
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**1,734,609**	1,735,212

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "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 33.

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 a number of new and revised standards, amendments and interpretations ("new and revised IFRSs") that are mandatorily effective for December 2010 financial year ends.

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 3 (as revised in 2008) Business combinations

IFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

IFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

As a result of the application of IFRS 3 (as revised in 2008), the Group has recognised RMB248,000 of acquisition-related costs in administrative expenses in the consolidated statement of comprehensive income resulting in a decrease in the profit for the year. Previously these costs would have been accounted for as part of the cost of the acquisition, resulting in additional goodwill of the same amount in the consolidated statement of financial position. The impact on earnings per share as a result of the application of IFRS 3 (as revised in 2008) was a decrease in basic earnings per share of RMB0.02 cents.

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

IFRS 3 (as revised in 2008) Business combinations (continued)

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

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
IFRS 9	Financial instruments[4]
IAS 12 (Amendments)	Deferred tax – Recovery of underlying assets[5]
IAS 24 (as revised in 2009)	Related party disclosures[6]
IAS 32 (Amendments)	Classification of rights issues[7]
IFRIC 14 (Amendments)	Prepayments of a minimum funding requirement[6]
IFRIC 19	Extinguishing financial liabilities with equity Instruments[2]

1 Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.
2 Effective for annual periods beginning on or after 1st July, 2010.
3 Effective for annual periods beginning on or after 1st July, 2011.
4 Effective for annual periods beginning on or after 1st January, 2013.
5 Effective for annual periods beginning on or after 1st January, 2012.
6 Effective for annual periods beginning on or after 1st January, 2011.
7 Effective for annual periods beginning on or after 1st February, 2010.

The directors of the Company anticipate that the application of the new or revised IFRSs, issued but not yet adopted will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with 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.

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1st January, 2010

Changes in the Group's ownership interests in 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, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured 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 Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). 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.

Business combinations

Business combinations that took place on or after 1st January, 2010

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Business combinations that took place on or after 1st January, 2010 (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, 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 transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group 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 another measurement basis required by another Standard.

Where the consideration the Group transfers 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 or gain on bargain purchase. 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 does not exceed one year from the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Business combinations that took place on or after 1st January, 2010 (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.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1st January, 2010

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses.

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

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

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

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. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

When acquisition of an associate is achieved in stages, goodwill arising when the investment becomes an associate represents the difference between the cost of investment and the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities. The fair value of the original investment at the date of re-categorisation and the cost paid for the additional stake will be the deemed cost of the investment in the associate.

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's 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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

Construction in progress is stated at cost less any recognised impairment loss which includes all development expenditure 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 value, using the straight line method, at the following rates per annum:

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

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

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

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

Leasehold land and building

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. 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.

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, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

A financial asset 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

For financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, 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 according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

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 financial liabilities are set out below.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax 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. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

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

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.

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

Foreign currencies

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

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).

From 1st January, 2010 onwards, 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.

4. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Fair value through profit or loss		
– Held for trading	**585**	6,322
Loans and receivables (including cash and cash equivalents)	**2,923,807**	2,439,857
Financial liabilities		
Fair value through profit or loss		
– Held for trading	**9,231**	2,912
Amortised cost	**1,280,539**	646,233

Financial risk management objectives and policies

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

Market risk

Currency risk

With our 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. While a complete hedge is not possible, the Group will protect our anticipated foreign currency revenue with appropriate foreign exchange contracts.

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

During the year 2010, the Group has entered into foreign currency forward contracts to minimise the effect of exchange rate fluctuations between Euro and the US$.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)
Market risk (continued)
Currency risk (continued)
The carrying amounts of the Group's and intra-Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date, excluding balances which are denominated in US$ in group companies with Hong Kong dollar ("HK$") as its functional currency because HK$ is pegged to US$, are as follows:

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
US$	**1,620,666**	1,347,619	**1,558,835**	491,714
Japanese Yen	**32,015**	29,085	**58,083**	1,881
Euro	**179,397**	237,901	**164,378**	76,050
HK$	**796,153**	717,543	**224,748**	867

Sensitivity analysis
The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. Exposures on balances which are denominated in US$ in group companies with HK$ as its functional currency are not considered as HK$ is pegged to US$ and in which fluctuations during the year is insignificant. The following table details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative (positive) number below indicates a decrease (increase) in profit for the year where the RMB strengthen 5% against the relevant currency. For a 5% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the amounts below would be positive (negative for Japanese Yen 2010).

	Impact	
	2010 RMB'000	2009 RMB'000
Increase (decrease) in profit for the year		
US$	**(3,092)**	(42,795)
Japanese Yen	**1,303**	(1,360)
Euro	**(751)**	(8,093)
HK$	**(28,570)**	(35,834)

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.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – forward rates (continued)

Sensitivity analysis

If forward rates between US$ against the Euro increase by 5%, while all other variables are held constant, the profit for the year would decrease by RMB433,000 (2009: RMB170,000). For a 5% weakening of the US$ forward rates against the Euro, there would be an equal and opposite impact on the profit of the Group.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 25) and bank balances and deposits (see note 23). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 23). 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 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 15 basis points (2009: 15 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2010 would increase/decrease by RMB1,250,000 (2009: RMB1,420,000). 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, 2010 and 2009, 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.

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

19.68% (2009: 12.90%) and 38.51% (2009: 32.62%) of total trade receivables are due from the Group's largest customer and the five largest customers. 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, 2010					
Non-derivative financial liabilities					
Non-interest bearing	–	42,501	767,752	810,253	810,253
Variable interest rate	1.04%	–	470,597	470,597	470,286
		42,501	1,238,349	1,280,850	1,280,539
Derivatives – gross settlement					
Foreign exchange forward contracts					
– inflow		–	262,430	262,430	
– outflow		–	(268,571)	(268,571)	
		–	(6,141)	(6,141)	(8,646)
At 31st December, 2009					
Non-derivative financial liabilities					
Non-interest bearing	–	5,026	454,112	459,138	459,138
Variable interest rate	1.12%	–	187,313	187,313	187,095
		5,026	641,425	646,451	646,233
Derivatives – gross settlement					
Foreign exchange forward contracts					
– inflow		–	450,475	450,475	
– outflow		–	(431,072)	(431,072)	
		–	19,403	19,403	3,410

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, 2010 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 22.

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 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 purpose of resource allocation and assessment of performances focuses specifically on the type of products sold. The Group's operating and reportable segments under IFRS 8 are dynamic components (including receivers and polyphonic speakers normally sold together in sets), microphones, headsets and other products (including transducers and vibrators), which represent the major types of products manufactured and sold by the Group.

Information regarding these segments is presented below.

6. SEGMENT INFORMATION (CONTINUED)

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

	2010 RMB'000	2009 RMB'000
Operating segments		
Segment revenue from external customers		
Dynamic components	**2,482,872**	1,678,396
Microphones	**366,242**	137,274
Headsets	**232,917**	221,812
Other products	**266,989**	165,661
Revenue	**3,349,020**	2,203,143
Segment results		
Dynamic components	**1,269,494**	888,463
Microphones	**114,771**	22,139
Headsets	**65,489**	57,734
Other products	**60,611**	20,753
Total profit for operating segments	**1,510,365**	989,089
Unallocated amounts:		
Interest income	**23,032**	15,646
Finance costs	**(3,272)**	(4,035)
Research and development costs	**(213,636)**	(159,105)
Administrative expenses	**(131,822)**	(103,200)
Distribution and selling expenses	**(110,023)**	(79,540)
Other income	**24,494**	19,983
Other expenses	**–**	(2,364)
Profit before taxation	**1,099,138**	676,474

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administration expenses, research and development costs, distribution and selling expenses, other income (including the net fair value gain or loss on foreign currency forward contracts and the share of results of associates) and other expenses. 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 holds those assets.

6. SEGMENT INFORMATION (CONTINUED)

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

	2010 RMB'000	2009 RMB'000
Greater China* (country of domicile)	**514,713**	391,515
Other foreign countries:		
Other Asian countries	**96,885**	109,076
America	**1,536,154**	611,286
Europe	**1,201,268**	1,091,266
	3,349,020	2,203,143

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

The geographical information of the Group's revenue from external customer by individual countries in Europe 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 3 (2009: 3) customers which individually has contributed to over 10% of the Group's revenue, amounted to RMB2,091,906,000 (2009: RMB1,429,411,000). No disclosure of the total amount of revenue by each customer is made, as in the opinion of the directors such disclosure is harmful to the Group's business.

7. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank borrowings wholly repayable within five years	**3,272**	4,035

8. PROFIT BEFORE TAXATION

	2010 RMB'000	2009 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 9)	**6,899**	4,403
Other staff's retirement benefits scheme contributions	**25,007**	21,130
Other staff costs	**616,377**	390,324
Total staff costs	**648,283**	415,857
Less: Staff costs included in research and development costs	**(85,500)**	(57,388)
	562,783	358,469
Depreciation	**188,966**	163,055
Less: Depreciation included in research and development costs	**(21,733)**	(31,159)
	167,233	131,896
Amortisation of intangible assets, included in cost of goods sold	**8,022**	6,871
Allowance for bad and doubtful debts	**17**	1,481
Auditor's remuneration	**2,270**	1,850
Cost of inventories recognised as expense	**1,838,655**	1,214,054
Loss on disposal of property, plant and equipment	**2,639**	883
Provision for obsolete stock	**7,245**	–
Operating lease rentals in respect of		
– building premises	**22,791**	26,245
– prepaid lease payments	**1,703**	1,801
– equipment	**230**	361
and after crediting:		
Fair value gain on foreign exchange linked notes	**–**	44
Government grants*	**9,588**	7,061
Interest income	**23,032**	15,646
Rental income	**904**	1,017
Reversal of allowance for bad and doubtful debts	**–**	1,146

* 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 and for reinvestment in its PRC subsidiaries. All the grants were approved and received during the year of recognition.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Benjamin Zhengmin Pan RMB'000	Ingrid Chunyuan Wu RMB'000	Mok Joe Kuen Richard RMB'000	Pei Kang RMB'000	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Dick Mei Chang RMB'000	Chang Carmen I-Hua RMB'000	Total RMB'000
31st December, 2010										
Fees	–	169	–	109	406	304	203	–	68	1,259
Salaries and other benefits	3,165	–	2,475	–	–	–	–	–	–	5,640
Total directors' emoluments	3,165	169	2,475	109	406	304	203	–	68	6,899
31st December, 2009										
Fees	–	171	230	171	410	73	62	143	–	1,260
Salaries and other benefits	2,733	–	410	–	–	–	–	–	–	3,143
Total directors' emoluments	2,733	171	640	171	410	73	62	143	–	4,403

Employees' emoluments

The five highest paid individuals included two (2009: one) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2009: four) highest paid individuals are as follows:

	2010 RMB'000	2009 RMB'000
Employees		
– basic salaries and allowances	**3,140**	3,614
– bonus	**9,491**	2,726
– retirement benefits scheme contributions	**–**	29
	12,631	6,369

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

The emoluments were within the following bands:

	Number of employees 2010	2009
HK$1,000,000 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**1**	–

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.

10. TAXATION

	2010 RMB'000	2009 RMB'000
The current tax charge comprises:		
PRC income tax	**90,553**	51,928
Other jurisdictions	**20,304**	11,183
Underprovision of taxation in prior years	**804**	3,563
	111,661	66,674

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 for these subsidiaries will expire gradually up to year 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.

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:

	2010 RMB'000	2009 RMB'000
Profit before taxation	**1,099,138**	676,474
Tax at the applicable income tax rate (note)	**274,785**	169,119
Tax effect of income not taxable for tax purposes	**(9,980)**	(6,103)
Tax effect of expenses not deductible for tax purposes	**1,079**	5,459
Tax effect of Tax Holiday	**(151,538)**	(101,837)
Tax effect of tax losses not recognised	**84**	113
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,553)**	(2,742)
Underprovision in prior years	**804**	3,563
Others	**(1,020)**	(898)
Tax charge for the year	**111,661**	66,674

Note: The PRC Enterprise Income Tax rate of 25% (2009: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

10. TAXATION (CONTINUED)

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

11. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognised as distribution during the year:		
2009 final dividend of HK15.5 cents (2008: HK10.9 cents) per ordinary share	**166,774**	117,990
2010 interim dividend of HK14.2 cents (2009: HK7.2 cents) per ordinary share	**150,262**	77,886
	317,036	195,876

Subsequent to end of the reporting period, 2010 proposed final dividend of HK23.7 cents (2009: HK15.5 cents) per ordinary share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2010 is based on the profit for the year attributable to owners of the Company of RMB986,730,000 (2009: RMB614,957,000) and on the number of ordinary shares of 1,228,000,000 shares in issue during the year (2009: 1,228,000,000 shares).

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1st January, 2009	153,200	215,297	52,760	15,987	926,916	245,033	1,609,193
Currency realignment	103	116	7	21	141	–	388
Additions	10,910	25,445	31,958	1,537	93,750	74,952	238,552
Disposals	–	(631)	–	(71)	(239)	(640)	(1,581)
Transfers	98,293	5,131	27,799	–	68,437	(199,660)	–
At 31st December, 2009	262,506	245,358	112,524	17,474	1,089,005	119,685	1,846,552
Currency realignment	(41)	(11)	(9)	13	166	(258)	(140)
Additions	18,066	59,798	–	4,336	212,025	285,701	579,926
Acquisition through business combinations	1,212	97	–	–	–	–	1,309
Disposals	(5,357)	(351)	–	(1,083)	(45)	(2)	(6,838)
Transfers	78,385	2,404	6,051	–	51,187	(138,027)	–
At 31st December, 2010	354,771	307,295	118,566	20,740	1,352,338	267,099	2,420,809
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2009	15,193	86,759	10,147	6,727	201,011	–	319,837
Currency realignment	7	72	6	8	95	–	188
Provided for the year	10,254	37,798	19,705	2,748	92,550	–	163,055
Eliminated on disposal	–	(539)	–	(64)	(95)	–	(698)
At 31st December, 2009	25,454	124,090	29,858	9,419	293,561	–	482,382
Currency realignment	3	(81)	(11)	–	35	–	(54)
Provided for the year	16,862	41,207	12,185	2,948	115,764	–	188,966
Eliminated on disposal	(758)	(318)	–	(857)	(111)	–	(2,044)
At 31st December, 2010	41,561	164,898	42,032	11,510	409,249	–	669,250
CARRYING VALUES							
At 31st December, 2010	313,210	142,397	76,534	9,230	943,089	267,099	1,751,559
At 31st December, 2009	237,052	121,268	82,666	8,055	795,444	119,685	1,364,170

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

14. GOODWILL

	RMB'000
COST	
At 1st January, 2009, 31st December, 2009 and 1st January, 2010	5,405
Arising on business combinations	1,348
At 31st December, 2010	6,753

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

	2010 RMB'000	2009 RMB'000
AAC Wireless Technologies AB	**3,655**	3,655
北京東微世紀科技有限公司 ("Eastmicro Technology (Beijing) Co., Ltd.")	**1,750**	1,750
I. Square Research Co., Ltd. ("I. Square")	**1,348**	–
	6,753	5,405

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

15. PREPAID LEASE PAYMENTS

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

16. AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**–**	27,676

During the year, the Group signed a shareholders' agreement regarding Heptagon Oy ("Heptagon"), the available-for-sale investment to increase the Group's investing shareholdings. Upon signing the shareholders' agreement, the Group had the right to appoint 2 out of 7 directors of Heptagon and these 2 directors were appointed by the Group as at 31st December, 2010. Thus, the Group had significant influence on Heptagon and the investment was accounted for as an associate as at 31st December, 2010.

17. INTEREST IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of investments in associates, unlisted	**102,939**	–
Share of post acquisition profits and other comprehensive income	**810**	–
	103,749	–

Details of the Group's associates are as follows:

Name of associate	Place of incorporation	Percentage equity interest 2010 %	Percentage equity interest 2009 %	Principal activity
Heptagon	Finland	16.4%	16.7%	Micro optics business
Kaleido Technology ApS ("Kaleido")	Denmark	32.0%	–	Wafer-level glass lens precision molding business
Xenon Technology (Cayman) Limited ("Xenon")	Cayman Islands	39.2%	–	Design and manufacture of Xenon-based flash lamp and flash modules

During the year, the Group acquired Kaleido and Xenon for a total consideration of RMB75.2 million.

Included in the cost of investment in associates is goodwill of RMB31 million arising on acquisitions of associates. The movement of goodwill is set out below.

	RMB'000
Arising during 2010 on acquisitions of associates and at 31st December, 2010	31,077

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

	2010 RMB'000
Total assets	214,898
Total liabilities	(139,433)
	75,465
Revenue	144,861
Profit for the year	2,223
Group's share of profit of associates for the year	810

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Total RMB'000
COST			
At 1st January, 2009	–	40,416	40,416
Additions	–	4,453	4,453
At 31st December, 2009	–	44,869	44,869
Currency realignment	–	(745)	(745)
Acquired through business combinations	23,083	–	23,083
At 31st December, 2010	23,083	44,124	67,207
AMORTISATION			
At 1st January, 2009	–	11,290	11,290
Charge for the year	–	6,871	6,871
At 31st December, 2009	–	18,161	18,161
Currency realignment	–	(301)	(301)
Charge for the year	1,155	6,867	8,022
At 31st December, 2010	1,155	24,727	25,882
CARRYING VALUE			
At 31st December, 2010	21,928	19,397	41,325
At 31st December, 2009	–	26,708	26,708

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 ("MEMS") 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.

19. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**125,614**	86,414
Work in progress	**51,814**	30,181
Finished goods	**165,515**	113,611
	342,943	230,206

20. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**996,311**	642,471
Bank acceptance bills	**25,856**	1,933
	1,022,167	644,404
Advance payment to suppliers	**126,212**	35,400
Other receivables and prepayments	**144,299**	49,358
	1,292,678	729,162

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 presented based on the overdue date at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Age		
Not yet due	**857,178**	517,821
Overdue 0 – 90 days	**158,971**	124,596
Overdue 91 – 180 days	**4,576**	516
Overdue over 180 days	**1,442**	1,471
	1,022,167	644,404

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 RMB164,989,000 (2009: RMB126,583,000) 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 an aged analysis of trade receivables which are past due but not impaired:

	2010 RMB'000	2009 RMB'000
Overdue 0 – 90 days	**158,971**	124,596
Overdue 91 – 180 days	**4,576**	516
Overdue over 180 days	**1,442**	1,471
Total	**164,989**	126,583

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

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	**10,079**	9,741
Currency realignment	**(144)**	3
Allowance for bad and doubtful debts	**17**	1,481
Reversal of allowance for bad and doubtful debts	**–**	(1,146)
Amounts written off as uncollectible	**(4,982)**	–
Balance at end of the year	**4,970**	10,079

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

20. 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:

	2010 RMB'000	2009 RMB'000
US$	**168,703**	21,309
Euro	**95,178**	144,163
Japanese Yen	**772**	5,553
HK$	**135**	–

21. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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

Name of related company	Balance at 31.12.2010 RMB'000	Balance at 1.1.2010 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.")*	173	–	173
深圳市遠宇實業有限公司 ("Shenzhen Yuanyu Industrial Development Co., Ltd.")*	–	19,024	19,024
常州來方圓有限公司 ("Changzhou Laifangyuan Electronics Co., Ltd.")*	–	156	156
	173	19,180	

* For identification purpose only.

The above amounts are unsecured, interest-free and are repayable on demand.

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

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

22. FOREIGN CURRENCY FORWARD CONTRACTS

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

At 31st December, 2010:

Description	Settlement date	Exchange rates
4 contracts to sell in aggregate Euro 30.5 million for US$	Settled monthly on various dates from 13th January, 2011 until 13th July, 2011	At exchange rates ranging from US$1.29 to US$1.336 for Euro 1

At 31st December, 2009:

Description	Settlement date	Exchange rates
9 contracts to sell in aggregate Euro 44 million for US$	Settled monthly on various dates from 20th January, 2010 until 25th May, 2011	At exchange rates ranging from US$1.354 to US$1.58 for Euro 1

At any time prior to maturity of the Forward Contracts, if the spot rate between the US$ and Euro falls below an agreed rate, the Forward Contracts will be automatically terminated. The Forward Contracts are not designated and effective as a hedging instrument. Therefore, the fair value gains or losses are recognised in profit or loss in the period in which they arise. At 31st December, 2010, the fair value of the Forward Contracts are determined by the respective issuing banks with reference to forward rates.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits and bank balances carry variable and fixed interest rates ranging from 0% to 3.66% (2009: 0% to 4.14%). The pledged bank deposits are pledged to banks to secure letters of credit and the notes payables as set out in note 24.

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

	2010 RMB'000	2009 RMB'000
US$	**237,783**	482,800
HK$	**168,493**	184
Japanese Yen	**17,917**	6,831
Euro	**13,659**	18,845

24. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**389,422**	200,683
Notes payables – secured	**248,483**	135,090
	637,905	335,773
Payroll and welfare payables	**117,198**	86,875
Other payables and accruals	**92,466**	59,312
Contingent consideration payable (note 28)	**9,822**	–
	857,391	481,960

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

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

	2010 RMB'000	2009 RMB'000
Age		
Not yet due	**595,404**	332,312
Overdue 0 – 90 days	**41,045**	1,878
Overdue 91 – 180 days	**1,350**	144
Overdue over 180 days	**106**	1,439
	637,905	335,773

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

	2010 RMB'000	2009 RMB'000
US$	**40,813**	1,556
HK$	**18**	17
Japanese Yen	**6,260**	1,883
Euro	**1,780**	398

25. SHORT-TERM BANK LOANS

The short-term bank loans are denominated in US$, HK$, and Japanese Yen. US$ and Japanese Yen are not the functional currency of the relevant group entities. These loans are unsecured and carry interest ranging from 0.45% to 1.0% per annum over London Inter-bank Offered Rate ("LIBOR") (as at 31st December, 2009: from 0.8% to 1.0% per annum over LIBOR).

26. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1st January, 2009, 31st December, 2009 and 31st December, 2010	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2009, 31st December, 2009 and 31st December, 2010	1,228,000,000	12,280

	RMB'000
At 1st January, 2009, 31st December, 2009 and 31st December, 2010	99,718

27. 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.

27. SHARE OPTION SCHEME (CONTINUED)

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.

28. ACQUISITION OF A BUSINESS

On 1st October, 2010, the Group acquired a 96.4% equity interest in I. Square from independent third parties. Total consideration for the acquisition was RMB12,289,000. I. Square is engaged in design and manufacture of compact lens modules. The acquisition was made to expand the optical products operation and support the growth strategies of the Group. The acquisition has been accounted for using the purchase method.

	RMB'000
Consideration transferred:	
Cash	2,467
Contingent consideration (note 24)	9,822
	12,289

28. ACQUISITION OF A BUSINESS (CONTINUED)

Pursuant to the sales and purchase agreement, the consideration payable is contingent on the production volume of I. Square for a period of 14 months from the acquisition date. The target production volume is divided into several stages and the contingent consideration is paid in cash to the sellers at each stage. The contingent consideration was determined basing on the production and yield achievements of I. Square for 14 months. The directors estimate that the amount of contingent consideration payable will be between RMB9,822,000 and RMB10,278,000.

Acquisition-related costs amounting to RMB248,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year within administrative expenses.

	Provisional fair values RMB'000
The assets acquired and liabilities recognised at the date of acquisition were as follows:	
Property, plant and equipment	1,309
Intangible assets	23,083
Inventories	12
Trade and other receivables	1,998
Bank balances and cash	61
Trade and other payables	(5,536)
Bank loans	(9,856)
	11,071
Goodwill arising on acquisition:	
Consideration	12,289
Add: Non-controlling interest	130
Less: Net assets acquired	(11,071)
Goodwill arising on acquisition	1,348
Net cash outflow arising on acquisition:	
Cash consideration	(2,467)
Cash and cash equivalents acquired	61
Net outflow of cash and cash equivalents arising on acquisition	(2,406)

The Group is finalising the valuation of the assets acquired and liabilities assumed in the business combination, which is being prepared by professional external appraisers. Therefore, the initial accounting for the business combination has been determined only provisionally.

28. ACQUISITION OF A BUSINESS (CONTINUED)

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

The goodwill arising on the acquisition is expected to be non-deductible for tax purpose.

I. Square contributed a revenue of RMB674,000 and a loss of RMB2,324,000 for the period from the date of acquisition to 31st December, 2010.

If the acquisition had been completed on 1st January, 2010, based on the unaudited management accounts of the subsidiary, the impact on the Group's revenue and profit for the year ended 31st December, 2010 would have been insignificant.

Non-controlling interests:
The non-controlling interests in I. Square recognised at the acquisition date was determined with reference to the proportionate share of the acquiree's net assets of the acquisition date and amounted to RMB130,000.

29. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	–	84	**17,728**	13,118
In the second to fifth year inclusive	–	307	**28,654**	8,263
	–	391	**46,382**	21,381

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

30. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**115,309**	43,112

31. 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.

32. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	2010 RMB'000	2009 RMB'000
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	**48,437**	31,525
	Property rentals paid	**6,047**	6,165
	Sales of raw materials	**1,862**	1,627
Close family members of the directors of the Company	Property rentals paid	**2,514**	2,576
Substantial shareholders	Property rentals paid	**560**	567

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

Balances with related parties are disclosed in note 21 to the consolidated financial statements.

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2009 and 31st December, 2010, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技（常州）有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (note a)	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
AAC Acoustic Technologies Limited	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
AAC Technologies Pte. Ltd.	Singapore	Shares – SGD500,000	Sale of acoustic related products
瑞聲聲學科技（深圳）有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (note b)	PRC	Registered capital – US$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$70,400,000	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 for acoustic products
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Tehnology Co., Ltd. (note g)	PRC	Registered capital – RMB1,000,000	Provision of electroplating service
YEC Electronics Limited	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products

33. PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

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

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

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

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

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

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

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

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

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

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 RMB'000	2009 RMB'000
Investments in subsidiaries	**61,857**	61,857
Current assets		
Other receivables	**89**	138
Amounts due from subsidiaries	**715,593**	810,780
Bank balances and cash	**5,374**	84,436
	721,056	895,354
Current liabilities		
Other payables	**3,517**	2,211
Amounts due to subsidiaries	**172,152**	299
	175,669	2,510
Net current assets	**545,387**	892,844
Net assets	**607,244**	954,701
Capital and reserves		
Share capital	**99,718**	99,718
Reserves	**507,526**	854,983
	607,244	954,701

35. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to 31st December, 2010, in accordance with the shareholders agreement, the Group agreed to acquire additional shareholdings from shareholders of Kaleido and make further investment in Kaleido by subscribing for new shares issued by Kaleido for a total consideration of Danish Kroner 35.1 million (RMB41.4 million). Upon completion of the transaction, the Group will hold 70.9% equity interest in Kaleido and Kaleido will become a subsidiary of the Group. Management considers the financial effect of the additional acquisition of investment in Kaleido becoming a subsidiary to be insignificant.

Financial Summary

	Year ended 31st December,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
RESULTS					
Revenue	1,773,371	1,952,212	2,256,022	2,203,143	**3,349,020**
Profit before taxation	600,032	597,978	616,241	676,474	**1,099,138**
Taxation	(31,515)	(49,936)	(25,638)	(66,674)	**(111,661)**
Profit for the year	568,517	548,042	590,603	609,800	**987,477**
Attributable to:					
Owners of the Company	570,314	551,133	590,434	614,957	**986,730**
Non-controlling interests	(1,797)	(3,091)	169	(5,157)	**747**
	568,517	548,042	590,603	609,800	**987,477**

	As at 31st December,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
ASSETS AND LIABILITIES					
Total assets	2,542,223	3,211,748	3,704,217	4,253,666	**5,583,819**
Total liabilities	(417,175)	(623,773)	(589,014)	(718,909)	**(1,407,928)**
Net assets	2,125,048	2,587,975	3,115,203	3,534,757	**4,175,891**
Attributable to owners of the Company	2,111,135	2,577,336	3,107,768	3,534,376	**4,174,545**
Non-controlling interests	13,913	10,639	7,435	381	**1,346**
	2,125,048	2,587,975	3,115,203	3,534,757	**4,175,891**