



AAC ACOUSTIC TECHNOLOGIES HOLDINGS INC.

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2018)

CONTINUING CONNECTED TRANSACTIONS

The License Agreement

On or about 1st May, 2006, AAC HK (an indirectly wholly owned subsidiary of the Company) and Novatech entered into the License Agreement (and as supplemented by a supplemental agreement dated 8th September, 2006) pursuant to which, Novatech granted AAC HK a non-exclusive license in respect of the Technology in consideration for (i) the License Fee in the amount of US\$2 million (equivalent to about HK\$15.6 million); and (ii) royalty fees on an annual basis in respect of any commercially available product comprising or containing any of the Technology during the term of the License Agreement.

The JV Agreement

On 11th May, 2006, AAC HK (an indirectly wholly owned subsidiary of the Company) together with Nicomatic and Novatech, entered into the JV Agreement for the formation of the JV Company in the proportion of 60:20:20. Pursuant to the JV Agreement, the total consideration for the formation of the JV Company amounted to US\$5 million (equivalent to about HK\$39 million), which has been determined based on the proportional interest in the JV Company held by each of its shareholders. As a result of the JV Agreement, each of Novatech and Nicomatic has become a substantial shareholder of the JV Company and hence a connected person to the Company.

As a result of the License Agreement and the JV Agreement, the JV Company also entered into certain continuing connected transactions, including the Purchase CCT and the Royalty CCT. As the relevant Percentage Ratios of certain continuing connected transactions are more than 0.1% but less than 2.5%, they are subject to reporting, announcement and are exempt from independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Purchase CCT

On 27th May, 2006 and 10th July, 2006, AAC Electronic (Tianjin) Co., Ltd. (a wholly owned subsidiary of the JV Company) entered into the Two Contracts with Novatech for the purchase of equipment and materials for a total consideration of US\$336,187.05 (equivalent to about HK\$2,622,000). On 8th August, 2006, AAC Electronic (Tianjin) Co., Ltd. entered into the New Contract with Novatech for further purchase of equipment and materials for a consideration of US\$107,234.00 (equivalent to about HK\$836,000). As the total consideration payable to Novatech under the Two Contracts and the New Contract exceeds 0.1% but less than 2.5% of the relevant Percentage Ratios, the purchases of equipment and materials under the abovementioned contracts are subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

The Royalty CCT

Pursuant to the License Agreement, royalty fees are payable by the Licensees to Novatech. The Directors anticipate that the maximum royalty fee payable by the Licensees to Novatech as provided under the License Agreement for each of the three years ending 31st December, 2008 to be nil, about US\$96,000 and US\$240,000 (equivalent to nil, about HK\$749,000 and HK\$1,872,000) respectively. The maximum royalty fees payable by the Licensees to Novatech have been determined by reference to the estimated sales amount of the JV Company.

The relevant Percentage Ratios in respect of the royalty fees payable by the Licensees to Novatech for the year ending 31st December, 2007, calculated based on the financial results of the Group for the year ended 31st December, 2005, will be less than 0.1% on an annual basis and therefore the royalty fees payable for the year ending 31st December, 2007 will be exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules. On the other hand, the relevant Percentage Ratios in respect of the royalty fees payable by the Licensees to Novatech for the year ending 31st December, 2008, calculated based on the financial results of the Group for the year ended 31st December, 2005, will be more than 0.1% but less than 2.5% on an annual basis. Therefore, the relevant transactions in respect of the royalty fees payable for the year ending 31st December, 2008 will be subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

The New Lease Agreements

On 17th February, 2006, the Group entered into certain lease agreements with Ms. Wu's Father for the lease of the Properties to the Group which has replaced the Old Lease Agreements entered into between the Group and Ms. Wu. Pursuant to the New Lease Agreements, the consideration for the leasing of the Properties amounted to RMB1,832,880 (equivalent to about HK\$1,762,000) per annum. As the total consideration payable for the lease of the Properties under the New Lease Agreements, on an annual basis, exceeds 0.1% but less than 2.5% of the relevant Percentage Ratios, the New Lease Agreements are subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

THE JV COMPANY

The License Agreement

On or about 1st May, 2006, AAC HK (an indirectly wholly owned subsidiary of the Company) as licensee and Novatech as licensor entered into the License Agreement (and as supplemented by a supplemental agreement dated 8th September, 2006) pursuant to which, Novatech granted AAC HK a non-exclusive license in respect of the Technology for a term of three years commencing from 1st May, 2006. Upon expiry of the initial term of the License Agreement, AAC HK shall have the right to renew the License Agreement for such term as AAC HK may decide at its own discretion. In the event that the License Agreement is being renewed, the Company will re-comply with Chapter 14A of the Listing Rules prior to such renewal.

Pursuant to the License Agreement, AAC HK has agreed to pay Novatech (i) a license fee in the amount of US\$2 million (the "License Fee", equivalent to about HK\$15.6 million) by way of three installments; and (ii) royalty fees on an annual basis in respect of any commercially available product comprising or containing any of the Technology during the term of the License Agreement, payable every three months. The license fee and royalty fee are determined after arm's length negotiations between the parties to the License Agreement and with reference to the Technology granted by Novatech under the License Agreement. Pursuant to the License Agreement, the license fee shall be payable by AAC HK to Novatech as to US\$0.5 million (equivalent to about HK\$3.9 million) at the signing of the License Agreement; US\$0.5 million (equivalent to about HK\$3.9 million) after receiving the OEM (Original Equipment Manufacturer) flexible electroluminescent product qualification; and the remaining US\$1 million (equivalent to about HK\$7.8 million) two months after the initial product delivery to the customers of the JV Company.

The JV Agreement

On 11th May, 2006, AAC HK (an indirectly wholly owned subsidiary of the Company), Nicomatic and Novatech entered into the JV Agreement for the formation of the JV Company.

Pursuant to the JV Agreement, the total consideration for the formation of the JV Company amounted to US\$5 million (equivalent to about HK\$39 million), which has been determined based on the proportional interest in the JV Company held by each of its shareholders. AAC HK agrees to subscribe for 60% of the total issued share capital of the JV Company in consideration of US\$3 million (equivalent to about HK\$23.4 million) and each of Novatech and Nicomatic agrees to subscribe for 20% of the total issued share capital of the JV Company in consideration of US\$1 million (equivalent to about HK\$7.8 million) respectively.

Further, the JV Agreement provided that the JV Company and its affiliates shall have the rights and benefits of the License Agreement and, in return, the JV Company shall pay the license fee and royalty fees to Novatech as provided under the License Agreement. The US\$0.5 million (equivalent to about HK\$3.9 million) license fee made by AAC HK pursuant to the License Agreement have been used to set off part of the subscription money payable by AAC HK for the establishment of the JV Company. In addition, Novatech has waived US\$1 million (equivalent to about HK\$7.8 million) of the license fee payable by the JV Company under the License Agreement to satisfy in whole the subscription money payable by it for the establishment of the JV Company.

Prior to the establishment of the JV Company, Novatech and Nicomatic were independent of and not connected with the directors, chief executive, substantial shareholder of the Company or any of its subsidiaries or an associate of any of them. As a result of the JV Agreement, each of Nicomatic and Novatech became a substantial shareholder of the JV Company, being a subsidiary of the Company,

and hence a connected person of the Company pursuant to Rule 14A.11(1) of the Listing Rules. Therefore, upon completion of the formation of the JV Company, any transaction entered into between the Group and Nicomatic and/or Novatech will subsequently become connected transactions of the Company pursuant to Chapter 14A.41 of the Listing Rules.

As a result of the entering into of the JV Agreement, the License Fee in the total sum of US\$2 million (equivalent to about HK\$15.6 million) payable under the License Agreement exceeds 0.1% but less than 2.5% of the relevant Percentage Ratios, therefore is subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

The continuing connected transaction — purchase of equipment and materials (the "Purchase CCT")

On 27th May, 2006 and 10th July, 2006, AAC Electronic (Tianjin) Co., Ltd. (a wholly owned subsidiary of the JV Company) entered into two purchase agreements with Novatech for the purchase of equipment and materials (the "Two Contracts"). The total consideration payable under the Two Contracts amounted to US\$336,187.05 (equivalent to about HK\$2,622,000). On 8th August, 2006, AAC Electronic (Tianjin) Co., Ltd. entered into another purchase agreement with Novatech for further purchase of equipment and materials for a consideration of US\$107,234.00 (equivalent to about HK\$836,000) (the "New Contract"). The considerations paid under the Two Contracts and the New Contract (collectively the "Purchase Contracts") have been determined after arm's length negotiations between the parties to the Purchase Contracts and with reference to prices offered by other independent parties. As the total consideration payable to Novatech under the Purchase Contracts (US\$443,421.05 (equivalent to about HK\$3,459,000)) exceeds 0.1% but less than 2.5% of the relevant Percentage Ratios, the purchases of equipment and materials under the abovementioned contracts are subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

The equipment and materials purchased under the Purchase Contracts include gas and infrared curing system, UV (Ultra Violet) modular heat system, frame stretching system and other spare parts, which are all essential to the operation and production of the JV Company. As Novatech is one of the leading developers and manufacturers of electroluminescent lighting technology, the Directors expect to purchase equipment and materials from Novatech from time to time as the JV Company is principally engaged in the development, manufacture and sale of electroluminescent products. Based on the business projection of the JV Company, the Directors expect the purchase of equipment and materials from Novatech for each of the two years ending 31st December, 2008 will not exceed HK\$1,000,000 per annum or 0.1% of the relevant Percentage Ratios, therefore such purchases are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

Apart from purchase of equipment and materials from Novatech, the JV Company also purchases certain materials from Nicomatic. Based on the business projection of the JV Company, the Directors expect the purchase of materials from Nicomatic for each of the three years ending 31st December, 2008 will not exceed HK\$1,000,000 per annum or 0.1% of the relevant Percentage Ratios, therefore such purchases are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

The continuing connected transaction — royalty fees (the “Royalty CCT”)

Royalty fees are payable by the Licensees, namely AAC HK, the affiliates of AAC HK and the JV Company, to Novatech. These royalty fees will be calculated based on:

- (1) an aggregate 2% royalty fee based on 50% of gross amount invoiced by the Licensees for the first 100 million pieces of products; and
- (2) a 1% royalty fee based on 50% of gross amount invoiced by the Licensees thereafter.

Based on the business projection of the JV Company, the Directors anticipate that the maximum royalty fee payable by the Licensees to Novatech as provided under the License Agreement for each of the three years ending 31st December, 2008 to be nil, about US\$96,000 and US\$240,000 (equivalent to nil, about HK\$749,000 and HK\$1,872,000) respectively. The maximum royalty fees payable by the Licensees to Novatech have been determined by reference to the estimated sales amount of the JV Company.

The relevant Percentage Ratios in respect of the royalty fees payable by the Licensees to Novatech for the year ending 31st December, 2007, calculated based on the financial results of the Group for the year ended 31st December, 2005, will be less than 0.1% on an annual basis and therefore the royalty fees payable for the year ending 31st December, 2007 will be exempted from the reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

On the other hand, the relevant Percentage Ratios in respect of the royalty fees payable by the Licensees to Novatech for the year ending 31st December, 2008, calculated based on the financial results of the Group for the year ended 31st December, 2005, will be more than 0.1% but less than 2.5% on an annual basis. Therefore, the relevant transactions in respect of the royalty fees payable for the year ending 31st December, 2008 will be subject to the reporting and announcement requirements but exempted from independent shareholders’ approval pursuant to Rule 14A.34 of the Listing Rules.

Should any of the abovementioned relevant Percentage Ratios in respect of the royalty fees payable for the year ending 31st December, 2007 and 31st December, 2008 change, the Company will re-comply with the requirements under the Listing Rules upon expiry of the abovementioned year ending 31st December, 2008. In addition, upon expiry of the License Agreement and in the event that the License Agreement is being renewed, the Company will re-comply with Chapter 14A of the Listing Rules prior to such renewal.

Reasons for and benefits of the entering into of the License Agreement, the JV Agreement and the Purchase Contracts

Leveraging on the technology know-how relating to flexible electroluminescent products held by the joint venture partners, the Group is able to extend its business scope to the development, manufacture and sale of electroluminescent and dome array products. In addition, the Group is interested in 60% of the JV Company which, the Group is entitled to share the profits generated by the JV Company in proportion to its shareholding.

The Directors believe that the entering into of the abovementioned transactions under the License Agreement and the JV Agreement facilitate the operation of the JV Company and allow the JV Company gaining access to the Technology, which are beneficial to the overall business and operation of the Group. At the time of establishment and for the operation of the JV Company, the JV Company requires certain equipment and materials for its operation and manufacturing of electroluminescent and dome array products. As Novatech and Nicomatic have the technology know-how and the related equipment and materials for production, the Directors consider the purchase of equipment and materials from them at market prices are in the interests of the Group as a whole.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the entering into of the abovementioned transactions under the License Agreement, the JV Agreement and the Purchase Contracts are entered into in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Information on the JV Company, its products and its shareholders

The JV Company, with a registered capital of US\$0.5 million (equivalent to about HK\$3.9 million), is principally engaged in the development, manufacture and sale of electroluminescent and dome array products. Pursuant to the JV Agreement, AAC HK is entitled to elect three members while each of Novatech and Nicomatic is entitled to elect one member to the board of directors the JV Company (the “JV Board”). Apart from the consideration paid under the JV Agreement, none of the shareholders of the JV Company has any capital commitment to the JV Company. As the Company has a 60% equity interest in the JV Company and has control over the JV Board, the financial results of the JV Company will be consolidated into the Group’s accounts as a subsidiary of the Company.

Electroluminescent products are products that apply electricity for emitting light. It is a cold illumination sources which the technology applied is highly involved with molecular chemistry, applied material science, vacuum techniques and electronic control devices. On the other hand, dome array products are micro-electromechanical components for machine-interface of mobile phones.

The Group is principally engaged in the design and production of miniature acoustic components, which are used in mobile phone headsets, MP3 (MPEG, audio layer 3) players and other consumer handheld devices.

Nicomatic is principally engaged in the development, manufacture and sale of custom precision-machined parts and its products can be found in a wide range of different applications from high volume consumer related products such as mobile phones to high technology fields such as nuclear and space.

Novatech is one of the leading developers and manufacturers of electroluminescent lighting technology.

Apart from being a shareholder of the JV Company, Nicomatic and Novatech are independent from each other.

LEASE AGREEMENTS

The Properties and the Old Lease Agreements

As stated in the prospectus of the Company dated 28th July, 2005, the Group entered into certain lease agreements with Ms. Ingrid Chunyuan Wu (“Ms. Wu”), a non-executive Director, pursuant to which, Ms. Wu agreed to lease the following properties (the “Properties”) to the Group as part of its places of business at Nanyou Tianan Industrial Park, Dengliang Road, Nanshan District, Shenzhen, the PRC (the “Old Lease Agreements”):

Location	Term	Rent per annum	
		RMB	Equivalent to about HK\$
Block 1A, 2B, 3C, Building 8	1st March, 2005–28th February, 2006	551,040	530,000
Block 2A, Building 8	1st July 2004–31st December, 2005	225,120	216,000
Block D4, 3rd Floor, Building 8	1st January, 2005–31st December, 2005	184,800	178,000
Block A, 1st Floor, Building 8	1st March, 2005–28th February, 2006	183,120	176,000
6th Floor, Building 5	1st March, 2005–28th February, 2006	688,800	662,000
		<u>1,832,880</u>	<u>1,762,000</u>

The New Lease Agreements and the Supplemental Agreements

In addition, pursuant to the Old Lease Agreements and as contained in the New Lease Agreements, the parties to the agreements can adjust, subject to the agreements between both parties, the rent payable under the Old Lease Agreements according to the relevant market rates but subject to a maximum of 5% adjustment from the agreed amount.

On 28th November, 2005, Ms. Wu entered into several sale and purchase agreements with her father, Mr. Wu Boming (吳柏明) (“Ms. Wu’s Father”), for the sale of the Properties by Ms. Wu to Ms. Wu’s Father.

On 17th February, 2006, the Group entered into certain lease agreements with Ms. Wu’s Father for the lease of the Properties to the Group under the same terms as stated in the Old Lease Agreements for the period from 1st January, 2006 to 31st December, 2009 (the “New Lease Agreements”). The rent payable under the New Lease Agreements has been determined based on market rate and with reference to the rent payable under the Old Lease Agreements and the Directors consider such rents payable under the New Lease Agreements are fair and reasonable. On 26th August, 2006, the Group entered into certain supplemental agreements (the “Supplemental Agreements”) with Ms. Wu’s Father to amend the leasing period of the Properties from 1st January, 2006 to 31st December, 2009 as stated in the New Lease Agreements to 1st January, 2006 to 31st December, 2008.

Taking into account the potential 5% increase of the rent from the preceding year, the aggregate amount of rent payable under the New Lease Agreements to Ms. Wu’s Father will not exceed a cap of RMB1,925,000, RMB2,021,000 and RMB2,122,000 (equivalent to about HK\$1,851,000, HK\$1,943,000 and HK\$2,040,000) per annum for the three years ending 31st December, 2008 respectively and are therefore exempt from the independent shareholders’ requirement under the Listing Rules. These continuing connected transactions are, however, subject to the reporting and announcement requirements under the Listing Rules.

As the total consideration payable for the lease of the Properties under the New Lease Agreements, on an annual basis, exceeds 0.1% but less than 2.5% of the relevant Percentage Ratios, the New Lease Agreements are subject to the reporting and announcement requirements and is exempt from the independent shareholders’ approval requirement pursuant to Rule 14A.34 of the Listing Rules.

Reasons for the entering into of the New Lease Agreements

Due to the change of the landlord to the Properties, the Company has to re-enter into new lease agreements for the Properties in order to continue its operation thereat. Apart from the landlord of the Properties, all other terms as stated in the New Lease Agreements are the same as the Old Lease Agreements.

The Properties are utilised by the Group for its production, storage and office purposes, therefore the entering into of the New Lease Agreements facilitates the business operation of the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the New Lease Agreements and the Supplemental Agreements are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“AAC HK”	AAC Acoustic Technologies Limited, a company incorporated in Hong Kong with limited liability on 7th December, 2004 and an indirectly wholly owned subsidiary of the Company
“Board”	the board of Directors
“Company”	AAC Acoustic Technologies Holdings Inc., a company incorporated in the Cayman Islands as an exempted company with limited liability on 4th December, 2003 whose shares are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JV Agreement”	the shareholders agreement dated 9th May, 2006 entered into between AAC HK, Nicomatic and Novatech in relation to the JV Company
“JV Company”	AAC Electronics Limited, a company incorporated in the British Virgin Islands on 11th May, 2006 as an exempted company with limited liability and is owned as to 60%, 20% and 20% by AAC HK, Nicomatic and Novatech respectively
“License Agreement”	the license agreement dated 1st May, 2006 and as supplemented by a supplemental agreement dated 8th September, 2006 entered into between AAC HK and Novatech in relation to the grant of a non-exclusive license with respect to the Technology by Novatech to the Licensees
“Licensees”	AAC HK, the affiliates of AAC HK, the JV Company and the affiliates of the JV Company who are liable to pay royalty fees under the License Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nicomatic”	Nicomatic S.A., a company incorporated in France and is interested in 20% of the equity interest of the JV Company
“Novatech”	Novatech Electro-Luminescent, Inc., a company incorporated in the US and is interested in 20% of the equity interest of the JV Company
“PRC”	the People’s Republic of China
“Percentage Ratios”	the percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules
“Shareholders”	the holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technology”	the patent rights and know-how relating to flexible electroluminescent products that are owned or controlled by Novatech
“US”	the United States of America
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the US

Translation of RMB and US\$ into HK\$ is based on the exchange rate of RMB1.04 to HK\$1.00 and US\$1.00 to HK\$7.80 respectively.

By Order of the Board
AAC Acoustic Technologies Holdings Inc.
Richard Peng-Fei Chu
Chief Financial Officer

Hong Kong, 14th September, 2006

As at the date of this announcement, the Board comprises one executive Director, namely Mr. Benjamin Zhengmin Pan, three non-executive Directors, namely Ms. Ingrid Chunyuan Wu, Mr. Yang Dong Shao and Dr. Thomas Kalon Ng and three independent non-executive Directors, namely Mr. Koh Boon Hwee, Dr. Dick Mei Chang and Mr. Mok Joe Kuen Richard.