

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2005*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the International Accounting Standard ("IAS") 34 "Interim financial reporting".

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 4th December, 2003 and acts as an investment holding company. Through a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed financial statements have been prepared using the principles of merger accounting.

The Company's shares were listed on the Main Board of the Stock Exchange on 9th August, 2005 (the "Listing"). Details of the Group Reorganisation are set out in Appendix V of the prospectus of the Company dated 28th July, 2005 (the "Prospectus").

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's financial information for the year ended 31st December, 2004 as set out in the Prospectus.

At the date of authorisation of these condensed financial statements, the following International Financial Reporting Standards ("IFRS"s) issued by the International Accounting Standards Board ("IASB") and the Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB were in issue but not yet effective:

IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

In addition, amendments to IAS 19 "Employee benefits" and amendments to IAS 39 "Financial instruments: recognition and measurement" have been issued but not yet effective.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has commenced considering the potential impact of the above new and amendments to IFRSs but is not yet in a position to determine whether these new and amendments to IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new and amendments to IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the period.

#### **Business segments**

The Group's operation is regarded as a single segment, engaged in the manufacture and sales of acoustic related products.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Geographical segments

The Group's primary format for reporting segment information is geographical segments.

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
<b>Turnover</b>		
United States of America	130,535	113,302
Greater China	233,936	137,231
Asia (excluding Greater China)	46,901	16,283
Europe	24,959	18,515
	<b>436,331</b>	<b>285,331</b>
<b>Results</b>		
Profit from operations		
— United States of America	48,319	50,135
— Greater China	77,297	46,531
— Asia (excluding Greater China)	15,226	3,611
— Europe	7,823	6,809
	<b>148,665</b>	<b>107,086</b>
Finance costs	(5,525)	(2,106)
Profit before taxation	143,140	104,980
Taxation	(9,483)	(11,381)
Net profit for the period	<b>133,657</b>	<b>93,599</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 4. PROFIT FROM OPERATIONS

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation	14,434	10,386
Less: Depreciation included in research and development costs	(737)	(272)
	13,697	10,114
Allowance for bad and doubtful debts	812	—
Loss on disposal of property, plant and equipment	—	61

### 5. TAXATION

	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
The charge comprises:		
Hong Kong Profits Tax at 17.5% on the estimated assessable profit for the period	(328)	—
PRC Income Tax	(9,148)	(11,375)
Overseas taxation	(7)	(6)
	(9,483)	(11,381)

No provision for Hong Kong Profits Tax has been provided as the Group has no assessable profit arising in Hong Kong for the prior period.

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), certain PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

There was no significant unprovided deferred taxation during the period or at the balance sheet date.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 6. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. However, in 2004, the following companies declared dividends to their then shareholders or owners prior to the Group Reorganisation:

Name of subsidiary	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
常州美歐電子有限公司 (American Audio Components (Changzhou) Ltd.)	—	95,754
常州開泰機電製造有限公司 (Changzhou Kaitai Machinery Electronics Co., Ltd.)	—	6,555
常州威利來電子音響器件有限公司 (Changzhou Weililai Electronics Acoustic Device Co., Ltd.)	—	10,872
YEC Electronics Limited	—	1,476
	—	114,657

### 7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2005 is based on the net profit for the period attributable to the equity holders of the Company of RMB133,195,000 (2004: RMB93,174,000) and on the 955,996,860 shares in issue during the period on the assumption that the Group Reorganisation and the capitalisation issue, as more fully described in Appendix V of the Prospectus, have been effective on 1st January, 2004.

No diluted earnings per share is presented as assuming the conversion of redeemable convertible preferred shares would result in an increase in earnings per share.

### 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB70 million (2004: RMB74 million) on acquisition of property, plant and equipment.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 9. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable from 45 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 90 days at the end of the credit terms in lieu of payment. The following is an aged analysis of trade receivables at the balance sheet date:

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
<b>Age</b>		
Not yet due	274,024	229,872
Overdue 0–90 days	28,238	2,866
Overdue 91–180 days	510	1,185
Overdue over 181 days	1,340	139
	304,112	234,062
Allowance for bad and doubtful debts	(1,646)	(834)
Trade receivables	302,466	233,228
Other receivables	28,521	20,304
	330,987	253,532

### 10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables and notes payables at the balance sheet date:

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
<b>Age</b>		
Not yet due	94,855	65,530
Overdue 0–90 days	14,110	2,628
Overdue 91–180 days	915	282
Overdue 181 to 365 days	10	39
Overdue over 365 days	48	383
Trade payables and notes payables	109,938	68,862
Other payables	54,645	43,433
	164,583	112,295

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 11. SHORT-TERM BANK LOANS

During the period, the Group raised new short-term bank loans of RMB83 million (2004: RMB74 million) and made repayments of RMB83 million (2004: RMB52 million). The short-term bank loans at 31st December, 2004 and 30th June, 2005 are unsecured and carry interests at rates ranging from 3.88% to 5.31% and 4.70% to 5.22%, respectively.

### 12. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
Liability component		
— Series A preferred shares	87,529	87,529
— Series B preferred shares	132,221	132,221
	<b>219,750</b>	<b>219,750</b>

The redeemable convertible preferred shares were issued by the Company in March 2004 ("Series A preferred shares") and November 2004 ("Series B preferred shares"). These redeemable convertible preferred shares are unsecured, carry interest at the London InterBank Offered Rate plus 1 percent and compounded quarterly and shall be payable at time of redemption.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 13. PAID-IN CAPITAL

The paid-in capital of the Group at 31st December, 2004 represented the aggregate paid-in capital of the Company excluding Series A preferred shares and Series B preferred shares (see note 12) and of 深圳泰瑞美精密器件有限公司 (Shenzhen Tairuimei Precision Tooling Manufacturing Co., Ltd.), net of minority interests.

	Ordinary shares	Number of shares Series A preferred shares	Series B preferred shares	Amount US\$'000
Authorised:				
Ordinary shares of US\$1 each				
— at 1st January, 2004	50,000	—	—	50
— increase in authorised share capital	1,800,000	150,000	—	1,950
— effect on sub-division of every 1 share of US\$1 each into 10 shares of US\$0.10 each ("Sub-division")	16,650,000	1,350,000	—	—
Shares of US\$0.10 each				
— increase in authorised share capital	—	—	1,000,000	100
— at 31st December, 2004 and 30th June, 2005	18,500,000	1,500,000	1,000,000	2,100
Issued and fully paid:				
Shares of US\$1 each				
— at 1st January, 2004	50,000	—	—	50
— effect on Sub-division	450,000	—	—	—
Shares of US\$0.10 each				
— issued upon Group Reorganisation	8,540,000	—	—	854
— issued for cash	—	960,000	784,314	174
— at 31st December, 2004 and 30th June, 2005	9,040,000	960,000	784,314	1,078
				RMB'000
Shown in the balance sheet at 30th June, 2005 as*				7,482

\* In accordance with the IFRS, the carrying amount of Series A preferred shares and Series B preferred shares are presented as the liability component in the consolidated balance sheet (see note 12).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 14. CAPITAL COMMITMENTS

	30th June, 2005 RMB'000	31st December, 2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	49,209	12,559

### 15. RELATED PARTY TRANSACTIONS

During the period, the Group has the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	1st January, 2005 to 30th June, 2005 RMB'000	1st January, 2004 to 30th June, 2004 RMB'000
Companies controlled by substantial shareholders of the Company	Sales of goods	52	373
	Purchase of raw materials	7,916	7,657
	Purchase of property, plant and equipment	—	6,032
	Equipment rentals paid	200	—
	Property rentals paid	3,162	1,493
	Sales of scrap materials	—	41
	Proceeds from disposal of property, plant and equipment	—	192
Substantial shareholders	Property rentals paid	1,567	653

### 16. POST BALANCE SHEET EVENTS

The following events took place subsequent to 30th June, 2005:

- (a) Pursuant to written resolutions of the shareholders of the Company dated 15th July, 2005:
- (i) each share of US\$0.10 each in the Company was sub-divided into 10 shares of US\$0.01 each;
  - (ii) the authorised share capital of the Company was increased from US\$2,100,000 to US\$50,000,000 by the creation of an additional 4,790,000,000 shares of US\$0.01 each;
  - (iii) the conversion of all the redeemable convertible preferred shares into ordinary shares of the Company was approved; and
  - (iv) the capitalisation of 865,596,860 shares of US\$0.01 each was approved.
- (b) The Company's shares were listed on the Main Board of the Stock Exchange on 9th August, 2005.