

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in the design and production of miniature acoustic components, which include miniature receivers, speakers, microphones, transducers and vibrators used in mobile phone handsets, MP3 players and other consumer handheld devices. The Directors believe that the competitive strengths of the Group have positioned itself to capitalise on the expected growth in the mobile phone handsets industry.

MARKET REVIEW

The market for mobile phone handsets, mobile phone hands-free sets, portable MP3 players and other portable consumer electronics products, continues to grow. New handset models being introduced incorporate new platforms with more value added acoustic features. These trends are driving the growth in demand for miniature acoustic components.

FINANCIAL REVIEW

Turnover for the Group grew 52.9% to RMB436.3 million for the six months ended 30th June, 2005 compared to RMB285.3 million for the corresponding period of 2004.

Gross margin was 47.4% for the six months ended 30th June, 2005 compared to 49.8% for the corresponding period of 2004.

Net profit attributable to equity holders of the Company for the Group was RMB133.2 million for the six months ended 30th June, 2005 compared to RMB93.2 million for the corresponding period of 2004.

INDEBTEDNESS

As of 30th June, 2005, the Group had total outstanding borrowings of RMB302.5 million, comprising redeemable convertible preferred shares of RMB219.8 million and short term bank loans of RMB82.7 million.

The redeemable convertible preferred shares were converted into shares of the Company pursuant to the Company's shareholders written resolutions dated 15th July, 2005.

CONTINGENT LIABILITIES

As of 30th June, 2005, the Group had no material contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operation is generally financed by shareholders' fund, cash inflows generated from operations and short term bank borrowings.

As of 30th June, 2005, the Group's net working capital, defined as the difference between current assets and current liabilities, was RMB287.1 million, representing an increase of 19% as compared to that as of 31st December, 2004.

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As of 30th June, 2005, the Group had net assets of RMB359.5 million, representing a rise of 38% over that as of 31st December, 2004.

As of 30th June, 2005 and 31st December, 2004, the gearing ratio was 0.95 times and 1.56 times respectively. The gearing ratio is defined as the aggregate of short term bank borrowings, dividend payable and redeemable convertible preferred shares to total equity.

The Directors are of the opinion that the Group's existing credit lines, together with cash generated from operations and existing cash and bank balance, will be sufficient to finance the working capital for the Group's present requirement.

FOREIGN EXCHANGE

The majority of the Group's sales, purchases and operating expenses were denominated in Renminbi, U.S. dollars, Japanese yen and Hong Kong dollars. The Directors believe that the Group has been and will continue to be exposed to foreign currency exchange risks but they do not expect future currency fluctuations to have material impact on the operations of the Group. The Group does not have any formal hedging policy and no instrument has been applied for hedging purpose during the period.

CHARGES ON GROUP ASSETS

As at 30th June, 2005, no Group asset was under charge to any financial institution.

MATERIAL ACQUISITION OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

Other than the Group Reorganization as described in the Prospectus, the Group had no material acquisition and disposal during the six months ended 30th June, 2005.

FUTURE PLANS FOR MATERIAL INVESTMENTS

During the six months ended 30th June, 2005, the Company has not made any material investments other than those set out in Appendix V of the Prospectus. The future plan for investments of the Group has been disclosed in the Prospectus.

EMPLOYEE INFORMATION

As of 30th June, 2005, the Group employed 4,845 permanent employees worldwide. For other details of the headcount and training information of employees, please refer to the Prospectus.

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 work performance of its staff.

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Employee remunerations include salaries, allowances, social insurance or mandatory pension fund. As required by PRC regulations, the Group participated in the social insurance schemes operated by the relevant local government authorities. The Group also participated in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, the United States of America and Europe.

DIVIDEND POLICY

The dividend policy of the Company will be determined and reviewed from time to time by the Board. The Directors may declare dividends after taking into account, among other things, results of operations, financial conditions, operating and capital requirements of the Group, and other factors that the Board deems relevant.

PROSPECTS

The Group remains optimistic about the business for the rest of the year. The demand from both existing and new customers continue to grow, especially for new platform products. Moreover, the second half of the year is seasonally stronger.