



Shinhint Acoustic Link Holdings Limited
成謙聲匯控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2005

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The board of directors (the “Board”) of Shinhint Acoustic Link Holdings Limited (the “Company”) is pleased to present the unaudited interim results and condensed financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2005, together with comparative figures for the corresponding period in 2004.

INTERIM DIVIDEND

The Board has resolved on 15th September, 2005 to declare an interim dividend of HK2.5 cents per share for the six months ended 30th June, 2005. The interim dividend will be payable on or before 18th October, 2005 to shareholders whose names appear on the register of members of the Company at the close of business on 7th October, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5th October, 2005 to 7th October, 2005 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates must be lodged with the registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 4th October, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

On 14th July, 2005, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). This marked a significant milestone in our corporate growth and development.

Whilst the demand for portable compressed audio player, personal computer, mobile phone in particular bluetooth-enabled mobile phone is on the growing path as per the studies performed by IDC, deployment of resources during the period to develop and prepare for new products to be launched has marred our financial results as shipment of these new products developed would only be effected in the second half of the year.

Although we always consider our business is directed by our products and their respective life cycles, and, therefore, as foreshadowed in the prospectus of the Company, that period to period comparisons (particularly half yearly comparisons) frequently do not produce meaningful analysis. Nevertheless, with the new products that were developed and started shipping to our customers since July, the second half results will improve significantly. Accordingly, the Board has decided to pay a higher dividend, at

HK2.5 cents a share, or a total payout of HK\$7.5 million (previous period: nil), which reflects the directors' confidence in the business for the rest of the year and beyond.

Geographically, sales to Asia increased by 79.5% due primarily to the increase of shipment of automobile speaker systems. Sales to North America and Europe remained stable over the period.

For the six months ended 30th June, net profit attributable to shareholders decreased from HK\$21.6 million in 2004 to HK\$8.3 million in 2005 for the period. Other than the impact of gross margin, our selling and distribution costs as well as administrative expenses are all within comfort zones, as we continue to operate with high efficiency.

Finance cost remained about the same as the year before but with the proceeds from our initial public offering (the "IPO") and pre-IPO investors, our cash flow in the second half of the year is strong and will adequately support our surge in business volume.

Financial Review

Turnover and performance

For the six months ended 30th June, 2005 the Group's turnover increased from HK\$264.7 million in 2004 to HK\$303.8 million. Gross profit margin for the Group dropped from 18.6% to 12.4% due primarily to deployment of resources during the period to support development of new products to be launched in second half of the year. Selling and distribution costs amounted to HK\$6.6 million (2004: HK\$6.5 million), a decrease from 2.5% to 2.2% as a percentage to sales while administrative expenses amounted to HK\$19.5 million (2004: HK\$18.2 million), a decrease from 6.9% to 6.4% on the same basis.

Liquidity and financial resources

The Group continues to enjoy a healthy financial position. As at 30th June, 2005, the Group had cash and bank deposits of approximately HK\$62.5 million of which HK\$5.5 million were pledged to banks for banking facilities. About 84.5% of the total cash and bank deposits were denominated in US dollars and Hong Kong dollars. The Group's net current assets amounted to approximately HK\$95.4 million. These indicate that the Group is able to meet current and future financial obligations with ease.

Normal operations of the Group are supported by over HK\$60.0 million in banking facilities for bank overdrafts, loans and trade financing. As at 30th June, 2005, the Group's bank borrowings were approximately HK\$29.2 million (31st December, 2004: HK\$31.2 million), of which about 80.7% were due within one year, and 8.7% and 10.6% were due in the second year and from the third to fifth year respectively. Unused banking facilities as at 30th June, 2005 was approximately HK\$29.0 million and the Group's gearing ratio calculated as the total liabilities against the total assets was at approximately 56.4%.

The Group has not used any financial instrument for hedging purpose or adopted particular hedging policy.

Foreign exchange exposure

Since the Group's sales and raw material purchases are denominated in US dollars and Hong Kong dollars, the Board believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. Although part of the manufacturing overhead is denominated in Renminbi, the Group's exposure to Renminbi exchange risk is manageable. The Group will closely monitor the development of the Renminbi exchange rate.

Contingent liabilities

As at 30th June, 2005, the Group did not have any material contingent liabilities.

Pledge on the group's assets

As at 30th June, 2005, bank deposits of HK\$5.5 million have been pledged to secure the Group's banking facilities.

Employees

As at 30th June, 2005, the Group had approximately 3,600 full-time employees, directly and indirectly including those employed through processing arrangement. Employees are remunerated according to their performance and responsibilities. Other employee benefits include, inter alias, provident fund, insurance and medical coverage.

Prospects

The Board is confident that business growth for the multimedia peripherals industry will continue, which will benefit both the speaker system segment and the headset segment of the Group. A range of new products developed with key customers will begin commercialization in the second half of 2005. The Board believes this will further enhance its product portfolio and enable the Group to well position itself to service its key customers and capture the market opportunities.

Boosted by the favorable response to our new products, the total value of confirmed orders on hand has exceeded HK\$500 million.

The Board believes wireless technology is the driver for growth for the multimedia peripherals industry in the foreseeable future. The Group will continue to invest in the research and development capability and capacity with particular emphasis on the application of wireless technologies to maintain and enhance its leadership position in the industry in the medium to long run.

Whilst continuing to foster strong/strategic relationships with existing customers, the Board intends to broaden the customer base by seeking to establish collaborative relationship with industry leaders through focused sales and marketing efforts. Further, it is always the intention of the Group to work closely with and to provide timely services to its customers. In this connection, the Group plans to set up three sales and marketing offices in Japan, US and Germany over a 18 months period.

OTHER INFORMATION

Purchase, sale or redemption of the Company's shares

Since the Company's shares were listed on the Stock Exchange on 14th July, 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company during the current period.

Directors' and chief executive's interests in shares, underlying shares and debentures

As at 30th June, 2005, the Company had not received any notice of interests to be recorded under section 352 of the Securities and Futures Ordinance (the "SFO") as the Company had not been listed on the Stock Exchange as at that date.

Upon the listing of the Company's shares on the Stock Exchange on 14th July, 2005, the interests and short positions of the directors and chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register 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 the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Ordinary shares of HK\$0.01 each of the Company

Name of directors		Nature of interest	Number of shares held	Percentage
Cheung Wah Keung	Long position	Interest in a controlled corporation	152,655,473 (Note 1)	50.89
Ip Wai Cheong, Ernest	Long position	Beneficial owner	1,900,802	0.63
Ip Wai Cheong, Ernest	Long position	Beneficial owner	3,397,500 (Note 2)	1.13

Notes:

1. 152,655,473 Shares were held by Pro Partner Developments Limited, which is wholly owned by Cheung Wah Keung.
2. Ip Wai Cheong, Ernest was granted an option to subscribe for 3,397,500 shares of the Company, details of which are stated in the “Share option” section below.

Share options

As at 25th June, 2005, the share option scheme (the “**Share Option Scheme**”) was approved and adopted by the shareholders of the Company, under which, the options the Company may grant to any eligible participants (including any executive directors of the Company) to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at 30th June, 2005, no options have been granted under the Share Option Scheme.

As at 11th May, 2005, an option to subscribe for 3,397,500 shares in the Company at an exercise price equals to par value of HK\$0.01 per share was granted to a director of the Company under the pre-IPO share option scheme as follows:

Director	Number of option shares			At 30th June 2005	Exercise price HK\$	Grant date	Exercisable period
	Granted during the six months ended 30th June 2005	Exercised during the six months ended 30th June 2005	Canceled/ lapsed during the six months ended 30th June 2005				
IP Wai Cheong, Ernest	3,397,500	-	-	3,397,500	0.01	11th May 2005	from 14th January, 2006 (6 months after the listing date, i.e. 14th July, 2005) to 31st December, 2007

Substantial shareholders' interests

As at 30th June 2005, the Company had not received any notice of interests to be recorded under section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

Saved as disclosed under the sections headed "Directors' and chief executive's interests in shares, underlying shares and debentures" and "Share options", the following persons (who are not directors and chief executive of the Company) have beneficial interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO as at 14th July 2005:

Name of shareholders		Number of shares held	Percentage of issued share capital
Pro Partner Developments Limited	Long position	152,655,473	50.89%
Lucky Merit Holdings Limited (<i>Note 1</i>)	Long position	16,500,000	5.50%
New World Development Company Limited (<i>Note 1</i>)	Long position	16,500,000	5.50%
S. I. Technology Venture Capital Limited (<i>Note 2</i>)	Long position	16,500,000	5.50%
Shanghai Industrial Investment (Holdings) Company Limited (<i>Note 2</i>)	Long position	16,500,000	5.50%
Cheung Lup Ying	Long position	15,207,936	5.07%

Notes:

1. Lucky Merit Holdings Limited, which directly holds 16,500,000 shares in the Company, is an indirect wholly-owned subsidiary of New World Development Company Limited ("NWDCL"), shares of which are listed on the Main Board. Therefore, NWDCL is deemed to be interested in those 16,500,000 shares.
2. S. I. Technology Venture Capital Limited, which directly holds 16,500,000 shares in the Company, is a wholly-owned subsidiary of Shanghai Industrial Holdings Limited ("SIHL"), shares of which are listed on the Main Board. Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") indirectly controls more than one-third of the voting power of SIHL, therefore SIIC is deemed to be interested in those 16,500,000 shares.

Disclosure pursuant to Rule 13.20 of the Listing Rules

The table below sets out the details, as required by Rule 13.15 of the Listing Rules, of advances to entities by the Group, which continued to exist and were discloseable pursuant to Rule 13.13 of the Listing Rules since the listing of the Company's shares on the Stock Exchange on 14th July, 2005:

Name of entity (and affiliated companies)	Nature of advances giving rise to the disclosure obligation	Aggregate amount due to the Group as at 30th June 2005 <i>HK\$</i>	Terms of advances
Logitech Inc. Logicool Co., Ltd. Logitech De Mexico, S.A. DE C.V. Logitech Europe S.A. Logitech Far East Ltd. Logitech Hong Kong Ltd. Logitech Ireland Services Ltd.	Trade receivables arising from sales of headsets and multimedia speaker systems	69,200,000	Unsecured, interest free and with payment terms of approximately 60 days
Altec Lansing (Hong Kong) Ltd. Altec Lansing Technologies Inc.	Trade receivables arising from sales of speakers systems for PCs, compressed audio players and other multimedia devices	23,200,000	Unsecured, interest free and with payment terms of approximately 30 to 75 days
Philips Electronics Hong Kong Ltd. Philips Innovative Applications N.V.	Trade receivables arising from sales of speakers and other components of acoustic products	21,900,000	Unsecured, interest free and with payment terms of approximately 30 to 45 days

Code on corporate governance practices

Since the listing of the Company's shares on the Stock Exchange on 14th July, 2005, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules, other than the requirement that the roles of the Chairman and the Chief Executive Officer are performed by Mr. Cheung Wah Keung under A.2.1 of the CG Code.

Mr. Cheung Wah Keung is the chairman of the Board, the chief executive officer and an executive director of the Company. In August 1992, Mr. Cheung acquired 20% interest in Shinhint Industries Limited and has since become a shareholder and a director of Shinhint Industries Limited. Mr. Cheung is responsible for the overall strategic planning and management of the Group.

The Company considers that, at this current stage of corporate development, the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities and react to changes efficiently. The Company considers that through the supervision of its Board members and in particular its independent non-executive directors, a balancing mechanism exists so that the interests of all the shareholders are adequately and fairly represented and protected.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code.

Audit committee

The Audit Committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited interim financial report for the six months ended 30th June, 2005. In addition, the condensed consolidated financial statements of the Company for the six months ended 30th June, 2005 have been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu and an unqualified review report was issued.

Remuneration committee

A Remuneration Committee has been established in accordance with the requirements of the CG Code. The Remuneration Committee comprises mainly of independent non-executive directors. The primary duties of the Remuneration Committee include but not limited to reviewing and determining the terms of employment of the directors and senior management. The Remuneration Committee will meet at least twice per annum to discuss related issues when need arises.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my deepest appreciation to all our business partners, customers and shareholders for their continuing support as well as to all our staff members for their dedicated effort.

INDEPENDENT REVIEW REPORT

Deloitte.

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TO THE BOARD OF DIRECTORS OF SHINHINT ACOUSTIC LINK HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 12 to 26.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion 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.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June, 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15th September, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Notes	Six months ended 30th June,	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	4	303,765	264,707
Cost of sales		(265,965)	(215,487)
Gross profit		37,800	49,220
Other operating income		636	3,048
Distribution costs		(6,631)	(6,503)
Administrative expenses		(19,521)	(18,164)
Amortisation of goodwill arising on acquisition of additional interest in a subsidiary		–	(65)
Release of negative goodwill arising on acquisition of subsidiaries		–	598
Share of result of an associate		(1,651)	(515)
Other operating expenses		–	(113)
Finance costs		(789)	(771)
Profit before tax	6	9,844	26,735
Income tax expense	7	(1,513)	(4,618)
Profit for the period		8,331	22,117
Attributable to:			
Equity holders of the parent		8,328	21,551
Minority interests		3	566
		8,331	22,117
Dividends	8	7,500	–
Earnings per share	9	HK cents	HK cents
– Basic		3.70	9.58
– Diluted		3.66	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2005

	<i>Notes</i>	30th June, 2005 HK\$'000 (unaudited)	31st December, 2004 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	48,278	51,133
Investment properties		–	4,200
Goodwill		70	70
Negative goodwill		–	(1,906)
Investment in an associate		6,958	8,609
Club debentures		978	978
		56,284	63,084
Current assets			
Inventories		58,003	45,173
Trade debtors, deposits and prepayments	11	150,696	136,332
Amount due from a related company		–	4
Tax recoverable		3	653
Pledged bank deposits		5,458	2,053
Bank balances and cash		57,088	50,099
		271,248	234,314
Current liabilities			
Trade creditors and accrued charges	12	139,632	119,122
Bills payable		7,248	9,346
Amount due to a related company		245	–
Amount due to a joint venture partner		–	2,331
Dividends payable		–	17,000
Taxation		2,807	2,751
Obligations under finance leases – due within one year		2,326	2,537
Bank loans – due within one year	13	23,573	23,516
		175,831	176,603
Net current assets		95,417	57,711
Total assets less current liabilities		151,701	120,795

	<i>Notes</i>	30th June, 2005 HK\$'000 (unaudited)	31st December, 2004 HK\$'000 (audited)
Capital and reserves			
Share capital	14	2,250	5,000
Reserves		139,497	102,697
Equity attributable to equity holders of the parent		141,747	107,697
Minority interests		983	980
Total equity		142,730	108,677
Non-current liabilities			
Obligations under finance leases – due after one year		317	1,448
Bank loans – due after one year	13	5,632	7,689
Deferred taxation		3,022	2,981
		8,971	12,118
		151,701	120,795

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total equity attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2004	5,000	-	-	(854)	(96)	-	-	87,832	91,882	10,861	102,743
Exchange difference arising on translation of overseas operations	-	-	-	-	276	-	-	-	276	81	357
Net income recognised directly in equity	-	-	-	-	276	-	-	-	276	81	357
Profit for the period	-	-	-	-	-	-	-	21,551	21,551	566	22,117
Total recognised income for the period	-	-	-	-	276	-	-	21,551	21,827	647	22,474
At 30th June, 2004	5,000	-	-	(854)	180	-	-	109,383	113,709	11,508	125,217
At 1st January, 2005 - as originally stated	5,000	-	-	(854)	185	219	-	103,147	107,697	980	108,677
- adjustments on adoption of new accounting standards (notes 2 and 3)	-	-	-	-	-	(219)	-	2,125	1,906	-	1,906
- as restated	5,000	-	-	(854)	185	-	-	105,272	109,603	980	110,583
Profit for the period	-	-	-	-	-	-	-	8,328	8,328	3	8,331
Total recognised income for the period	-	-	-	-	-	-	-	8,328	8,328	3	8,331
Effect on capital structure of Group											
Reorganisation	(4,950)	-	4,950	-	-	-	-	-	-	-	-
Issue of shares at premium	9	23,391	-	-	-	-	-	-	23,400	-	23,400
Issue of shares on capitalisation of share premium account	2,191	(2,191)	-	-	-	-	-	-	-	-	-
Recognition of equity-settled share based payments	-	-	-	-	-	-	416	-	416	-	416
At 30th June, 2005	2,250	21,200	4,950	(854)	185	-	416	113,600	141,747	983	142,730

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Six months ended 30th June,	
	2005 <i>HK\$'000</i> (unaudited)	2004 <i>HK\$'000</i> (unaudited)
Net cash from operating activities	6,303	20,099
Net cash used in investing activities	(2,372)	(251)
Financing activities		
Proceeds on issue of shares	23,400	–
New bank loans raised	24,392	6,080
Repayment of bank loans	(26,392)	(14,681)
Repayment of obligations under finance leases	(1,342)	(2,423)
Dividends paid	(17,000)	(18,000)
Net cash from (used in) financing activities	3,058	(29,024)
Net increase (decrease) in cash and cash equivalents	6,989	(9,176)
Cash and cash equivalents at beginning of the period	50,099	55,520
Effect of foreign exchange rate changes	–	293
Cash and cash equivalents at end of the period, represented by bank balances and cash	57,088	46,637

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. Group reorganisation and basis of preparation

The Company was incorporated on 26th January, 2005 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company issued shares in exchange for the entire issued share capital of Shinhint Industries Limited and thereby became the holding company of the Group on 11th May, 2005. Details of the Group Reorganisation are set out in the prospectus dated 30th June, 2005 issued by the Company.

The shares of the Company have been listed on the Stock Exchange with effect from 14th July, 2005.

The condensed consolidated income statement for the six months ended 30th June, 2004 has been prepared on a combined basis as if the current structure had been in existence during the period.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice 27 “Accounting for Group Reconstructions” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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 on the Stock Exchange and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

2. Principal accounting policies

The condensed financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s accountants’ report for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of an associate have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business Combinations

In the current period, the Group has applied HKFRS 3 “Business Combinations”, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill related becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005 which was previously presented as a deduction from assets, with a corresponding increase to retained profits.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. The Group has granted share options to a director during the period and no share options has been granted before 1st January, 2005.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities") in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment property revaluation reserve at 1st January, 2005 has been transferred to the Group's retained profits.

3. Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Decrease in amortisation of goodwill	65	–
Decrease in negative goodwill released to income	(598)	–
Expenses in relation to share options granted to a director	416	–
Decrease in profit for the period	(117)	–

Analysis of decrease in profit for the period by line items presented according to their function:

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Decrease in amortisation of goodwill arising on acquisition of additional interest in a subsidiary	65	–
Decrease in release of negative goodwill arising on acquisition of subsidiaries	(598)	–
Increase in administrative expenses	416	–
	(117)	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (Originally stated) <i>HK\$'000</i>	Effect of HKAS 1 and 27 <i>HK\$'000</i>	Effect of HKAS 40 <i>HK\$'000</i>	Effect of HKFRS 3 <i>HK\$'000</i>	As at 1st January, 2005 (Restated) <i>HK\$'000</i>
Balance sheet item					
Negative goodwill	(1,906)	–	–	1,906	–
Total effects on assets	(1,906)	–	–	1,906	–
Investment properties revaluation reserve	219	–	(219)	–	–
Retained profits	103,147	–	219	1,906	105,272
Minority interests	–	980	–	–	980
Total effects on equity	103,366	980	–	1,906	106,252
Minority interests	980	(980)	–	–	–

The Group has not early applied the following new Standards or Interpretations (“Int”) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining Whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. Turnover

Turnover represents the net amount received and receivable for goods sold by the Group to outside customers, less returns and allowances, during the period.

5. Segmental information

The Group is currently organised into three revenue streams – sale of headsets, speakers and others. These revenue streams are the basis on which the Group reports its primary segment information.

The Group's turnover and profit for the six months ended 30th June, 2005 and for the six months ended 30th June, 2004 by business segment are as follows:

	Headsets HK\$'000	Speakers HK\$'000	Others HK\$'000	Total HK\$'000
Six months ended 30th June, 2005				
TURNOVER				
External sales	62,024	238,044	3,697	303,765
RESULT				
Segment result	10,588	20,616	245	31,449
Unallocated other operating income				290
Unallocated corporate expenses				(19,455)
Share of result of an associate	–	(1,651)	–	(1,651)
Finance costs				(789)
Profit before tax				9,844
Income tax expense				(1,513)
Profit for the period				8,331
	Headsets HK\$'000	Speakers HK\$'000	Others HK\$'000	Total HK\$'000
Six months ended 30th June, 2004				
TURNOVER				
External sales	117,259	120,687	26,761	264,707
RESULT				
Segment result	20,452	19,250	3,983	43,685
Unallocated other operating income				1,753
Unallocated corporate expenses				(17,417)
Share of result of an associate	–	(515)	–	(515)
Finance costs				(771)
Profit before tax				26,735
Income tax expense				(4,618)
Profit for the period				22,117

6. Profit before tax

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Depreciation	5,906	5,824
Loss on disposal of property, plant and equipment	125	52
Loss on disposal of investment properties	74	–
Interest income	(83)	(11)

7. Income tax expense

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Income tax for the period		
Hong Kong	1,560	3,137
Other jurisdictions	–	722
(Over)underprovision in prior years		
Hong Kong	–	(106)
Other jurisdictions	(88)	1,153
Deferred tax for the period	1,472	4,906
	41	(288)
	1,513	4,618

Hong Kong Profits Tax is calculated at 17.5 per cent (six months ended 30th June, 2004: 17.5 per cent) on the estimated assessable profit for the period.

Income tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Deferred tax has been provided for temporary differences arising from accelerated for depreciation in respect of property, plant and equipment in both periods.

8. Dividends

The directors have determined that an interim dividend of HK\$0.025 per share (six months ended 30th June, 2004: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 7th October, 2005.

9. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	8,328	21,551
Weighted average number of ordinary shares for the purposes of basic earnings per share	225,000,000	225,000,000
Effect of dilutive potential ordinary shares: Share options	2,573,000	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	227,573,000	225,000,000

The calculation of basic earnings per share for the six months ended 30th June, 2005 and 30th June, 2004 is assuming that 225,000,000 shares of the Company had been in issue throughout both periods.

10. Property, plant and equipment

During the period, the Group's acquisition of property, plant and equipment amounted to HK\$3,175,000 (six months ended 30th June, 2004: HK\$2,746,000).

11. Trade debtors, deposits and prepayments

The Group normally allows an average credit period of 30 – 90 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group.

The following is an aged analysis of trade debtors at the respective balance sheet dates:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
0 to 30 days	63,365	55,093
31 to 60 days	48,633	47,181
61 to 90 days	13,591	13,587
91 to 120 days	476	2,016
Over 120 days	5,708	10,163
	131,773	128,040
Deposits and prepayments	18,923	8,292
	150,696	136,332

12. Trade creditors and accrued charges

The following is an aged analysis of the trade creditors at the respective balance sheet dates:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
0 to 30 days	42,732	33,963
31 to 60 days	32,926	25,576
61 to 90 days	34,194	13,068
91 to 120 days	13,455	18,974
Over 120 days	4,900	10,807
	128,207	102,388
Accrued charges	11,425	16,734
	139,632	119,122

13. Bank loans

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
The maturity of the bank loans is as follows:		
On demand or within one year	23,573	23,516
More than one year, but not exceeding two years	2,528	2,710
More than two years but not exceeding five years	3,104	4,979
	29,205	31,205
<i>Less: Amount due within one year shown under current liabilities</i>	<i>(23,573)</i>	<i>(23,516)</i>
Amount due after one year	5,632	7,689

During the period, the Group obtained new bank loans and repaid bank loans amounting to HK\$24,392,000 and HK\$26,392,000 (31st December, 2004: HK\$6,080,000 and HK\$14,681,000) respectively.

14. Share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
On incorporation	38,000,000	380
Increase on 25th June, 2005	462,000,000	4,620
At 30th June, 2005	500,000,000	5,000
Issued and fully paid:		
Allotted and issued at nil paid on 7th February, 2005	1	–
Issue of shares upon the Group Reorganisation	4,999,999	50
Allotted and issued at par on 17th May, 2005	49,995	–
Issue of shares at premium	867,968	9
Issue of shares on capitalisation of share premium account	219,082,037	2,191
At 30th June, 2005	225,000,000	2,250

The following changes in the share capital of the Company took place during the period from 26th January, 2005 (date of incorporation) to 30th June, 2005:

- (a) The Company was incorporated on 26th January, 2005 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 7th February, 2005, 1 share was allotted and issued at nil paid.
- (b) As consideration for the acquisition of the entire issued share capital of Shinhint Industries Limited and its subsidiaries, the Company has issued an aggregate of 4,999,999 shares of HK\$0.01 each, credited as fully paid under the Group Reorganisation which took place on 11th May, 2005. The difference between the deemed consideration and the aggregate par value of the shares issued has been credited to special reserve.
- (c) On 17th May, 2005, 49,995 shares of HK\$0.01 each were allotted and issued to Mr. Ip Wai Cheong, Ernest, at par.
- (d) Pursuant to the Subscription Agreements and the Supplemental Agreements, 747,828 shares of HK\$0.01 each and 120,140 shares of HK\$0.01 each were allotted and issued on 17th May, 2005 and 25th June, 2005 respectively to certain investors, for a total consideration of HK\$23,400,000.
- (e) On 25th June, 2005, the authorised share capital of the Company was increased from HK\$380,000 to HK\$5,000,000 by the creation of an additional 462,000,000 new shares of HK\$0.01 each. The new shares rank *pari passu* in all respects with the existing shares.
- (f) 219,082,037 shares of HK\$0.01 each in the Company were allotted and issued as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 25th June, 2005 in proportion to their respective shareholdings by the capitalisation of an amount of HK\$2,191,000 from the amount standing to the credit of the share premium account of the Company.

15. Capital commitments

At 30th June, 2005, the Group had commitments for capital expenditure of approximately HK\$1,683,000 (31st December, 2004: HK\$700,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

16. Pledge of assets

At 30th June, 2005, bank deposits amounting to HK\$5,458,000 (31st December, 2004: HK\$2,053,000) of the Group were pledged to secure certain banking facilities granted to the Group.

17. Events after the balance sheet date

On 7th July, 2005, 75,000,000 new shares of HK\$0.01 each in the Company were issued at a price of HK\$0.80 per share to the public by way of public offer and placing.

18. Related party transactions

During the period, the Group entered into the following transactions with related parties:

Name of related company	Relationship	Nature of transactions	Six months ended 30th June,	
			2005 HK\$'000	2004 HK\$'000
Dongguan Guanman Acoustic Co. Ltd.	Controlled by a director	Trade purchases	33,445	–
Guangzhou Prosonic – Guoguang Speaker System Co. Ltd.	An associate	Trade purchases	–	321
廣州慧得電子有限公司	A subsidiary of an associate	Trade sales	–	4
Victory Stand Industries Limited	Controlled by a director	Trade sales	–	24,178
		Trade purchases	–	2,415
		Subcontracting income received	–	846
Directors		Remuneration	1,963	824
Senior management		Remuneration	1,156	761