

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION

The condensed consolidated 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 of Hong Kong Limited (the “Listing Rules”) and the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2005.

In the current period, the Group has applied, for the first time, a number of new International Financial Reporting Standards (“IFRS”), amendments and interpretations (hereinafter collectively referred to as “new IFRSs”), which are effective for accounting periods beginning either on or after 1st December, 2005 or 1st January, 2006. The application of these new IFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

IAS 1 (Amendment)	Capital disclosures ¹
IFRS 7	Financial instruments: Disclosures ¹
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies ²
IFRIC 8	Scope of IFRS 2 ³
IFRIC 9	Reassessment of embedded derivatives ⁴
IFRIC 10	Interim financial reporting and impairment ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

⁵ Effective for annual periods beginning on or after 1st November, 2006.

The Group has not early applied the above IAS, IFRS and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these IAS, IFRS and Interpretations will have no material impact on the results and financial position of the Group.

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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 operations are regarded as a single segment, engaged in the manufacture and sales of acoustic related products.

Geographical segments

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

	1.1.2006 to 30.6.2006 RMB'000	1.1.2005 to 30.6.2005 RMB'000
Turnover		
United States of America	251,508	130,535
Greater China	442,292	233,936
Asia (excluding Greater China)	48,453	46,901
Europe	73,435	24,959
	815,688	436,331
Results		
United States of America	95,487	48,319
Greater China	153,807	77,297
Asia (excluding Greater China)	19,060	15,226
Europe	27,836	7,823
	296,190	148,665
Fair value change in respect of investments held-for-trading	116	—
Finance costs	(450)	(5,525)
Profit before taxation	295,856	143,140
Taxation	(19,571)	(9,483)
Profit for the period	276,285	133,657

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4. PROFIT BEFORE TAXATION

	1.1.2006 to 30.6.2006 RMB'000	1.1.2005 to 30.6.2005 RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation	21,437	14,434
Allowance for bad and doubtful debts	3,257	812
Loss on disposal of property, plant and equipment	525	—

5. TAXATION

	1.1.2006 to 30.6.2006 RMB'000	1.1.2005 to 30.6.2005 RMB'000
The charge comprises:		
Hong Kong Profits Tax at 17.5% on the estimated assessable profit for the period	(986)	(328)
PRC Income Tax	(18,578)	(9,148)
Overseas taxation	(7)	(7)
	(19,571)	(9,483)

Pursuant to the relevant laws and regulations in 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.

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6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2006 is based on the profit for the period attributable to equity holders of the Company of RMB276,291,000 (2005: RMB133,195,000) and on the 1,248,000,000 (2005: 955,996,860) shares in issue during the period.

No diluted earnings per share was presented for the six months ended 30th June, 2005 as assuming the conversion of redeemable convertible preferred shares would have resulted in an increase in earnings per share. All the redeemable convertible preferred shares were converted into ordinary shares of the Company in August 2005.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group made additions to property, plant and equipment of approximately RMB95 million (2005: RMB70 million) on acquisition of property, plant and equipment, including transfers from deposits of approximately RMB19 million (2005: RMB14 million).

8. TRADE 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 and notes receivables at the balance sheet date:

	30.6.2006	31.12.2005
	RMB'000	RMB'000
Age		
Not yet due	368,746	288,809
Overdue 0–90 days	4,851	25,668
Overdue 91–180 days	1,344	67
Overdue over 181 days	6,408	1,426
	381,349	315,970
Allowance for bad and doubtful debts	(4,487)	(1,230)
	376,862	314,740

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9. INVESTMENTS HELD-FOR-TRADING

The investments held-for-trading represents the Group's investment in trust funds and are at each balance sheet date subsequent to initial recognition measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The fair value of the investments held-for-trading is determined based on market bid price as at 30th June, 2006.

10. TRADE PAYABLES

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

	30.6.2006	31.12.2005
	RMB'000	RMB'000
Age		
Not yet due	168,861	143,758
Overdue 0–90 days	11,399	1,459
Overdue 91–180 days	619	145
Overdue over 181 days	1,402	392
	182,281	145,754

11. SHORT-TERM BANK LOANS

During the period, the Group raised new short-term bank loans of RMB30 million (2005: RMB83 million) and made repayments of RMB35 million (2005: RMB83 million). At 31st December, 2005 and 30th June, 2006, the short-term bank loans are unsecured and carry interest at fixed rate of 4.70% per annum.

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12. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares	4,975,000,000	49,750
Series A preferred shares	15,000,000	150
Series B preferred shares	10,000,000	100
At 1st January, 2006 and 30th June, 2006	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2006 and 30th June, 2006	1,248,000,000	12,480
		RMB'000
Shown in the balance sheet at 1st January, 2006 and 30th June, 2006 as		101,342

13. CAPITAL COMMITMENTS

	30.6.2006 RMB'000	31.12.2005 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	31,743	56,479

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14. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	1.1.2006 to 30.6.2006 RMB'000	1.1.2005 to 30.6.2005 RMB'000
Companies controlled by substantial shareholders of the Company	Sales of goods	—	52
	Purchase of raw materials	—	7,916
	Equipment rentals paid	—	200
	Property rentals paid	—	3,162
Minority shareholder of a subsidiary	License fee expense	535	—
Companies controlled by close family members of the directors of the Company	Purchase of raw materials	2,947	—
	Property rentals paid	3,131	—
Close family members of the directors of the Company	Property rentals paid	1,030	—
Substantial shareholders	Property rentals paid	332	1,567

Included in deposits made on acquisition of property, plant and equipment as at 30th June, 2006 are deposits of RMB2,443,000 (2005: RMB nil) made to a minority shareholder of a subsidiary for acquisition of certain property, plant and equipment.

During the period, the emoluments paid to the key management personnel of the Company, which represents the directors of the Company, was RMB1,907,000 (2005: RMB621,000).