

Management Discussion and Analysis

OVERVIEW

The results in the first half of 2006 demonstrated our persistent growth in orders, revenue and profitability. We continued to carry out our long-term growth strategic plan effectively by launching new products and entering into new growth areas, together with our leading acoustic technology, we uniquely positioned our Company for new levels of performance.

In the second quarter of this year, both of our sales and profit have improved compared with those in the first quarter. With our leading acoustic technology, utilization of our factory, cycle times and other margin improvement programs, we are well-positioned to continue creating value for our shareholders.

MARKET REVIEW

The first half of 2006 has ended on a positive note as customers began increasing orders and in turn we have invested in new capacity to prepare for further growth. Throughout the first half of this year, we continued to advance our acoustic technology, launched new products and our growth strategy. We are committed to providing customers with innovative technology solutions that will help them to bring their products to market.

FINANCIAL REVIEW

Our revenue for the six months ended 30th June, 2006 was RMB815.7 million, representing an increase of RMB379.4 million, or 86.9%, compared with the corresponding period of 2005. Overall gross margin was 50.6% for the six months ended 30th June, 2006 compared with 47.4% for the corresponding period of 2005. Net profit attributable to equity holders of the Company was RMB276.3 million for the six months ended 30th June, 2006 compared with RMB133.2 million for the corresponding period of 2005. Basic earnings per share was RMB22.14 cents, representing an increase of 58.9% from RMB13.93 cents for the corresponding period of 2005.

During the six months ended 30th June, 2006, we maintained a balance sheet with a significant cash balance and low debt levels that can support continual investment which generates revenue growth, high returns on invested capital and increased shareholder value. This also gives us financial flexibility to take advantage of any business opportunity or to deal with economic difficulties that we may face.

GEARING RATIO

The gearing ratio of the Group, computed by dividing the aggregate of short-term bank loans, dividends payable and non-current liabilities by the total assets, as at 30th June, 2006, was 0.5% compared with 0.8% as at 31st December, 2005.

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INDEBTEDNESS

As at 30th June, 2006, the Group had RMB10.0 million short-term bank loans compare with RMB15.0 million as at 31st December, 2005.

CONTINGENT LIABILITIES

As at 30th June, 2006, the Group had no material contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June, 2006, the Group had RMB937.8 million in cash and cash equivalents. In addition, the Group had restricted short-term bank deposits of RMB17.5 million. The Group had no long-term debt as at 30th June, 2006. The management believes the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current need of the Group for capital.

FOREIGN EXCHANGE

The majority of the Group's sales, purchases and operating expenses were denominated in Renminbi, U.S. dollars, Japanese yen, Hong Kong dollars and Euro. The Board believes that the Group has been and will continue to be exposed to foreign currency exchange risks but it does 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 six months ended 30th June, 2006.

CHARGES ON GROUP ASSETS

As at 30th June, 2006, no Group asset was under charge to any financial institution.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANY

During the six months ended 30th June, 2006, the Group has no material acquisition and disposal.

FUTURE PLANS FOR MATERIAL INVESTMENTS

During the six months ended 30th June, 2006, 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.

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EMPLOYEE INFORMATION

As at 30th June, 2006, the Group employed 8,811 permanent employees worldwide. Various training activities were provided to the employees for improving the quality of services as well as for ensuring the smooth and effective operation of the Group's business.

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 appraise work performance of its staff.

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.

DIVIDENDS

The form, frequency and amount of future dividends on the shares of the Company will depend on the Group's earnings and financial position, results of operations, capital needs, plans for expansion and other factors as the Board may deem appropriate. The Board may recommend the amount of dividends to be declared and the declaration and payments of dividends will be determined by the shareholders in general meeting. The amount of dividends to be declared shall not be in excess of the amount recommended by the Board.

No dividends have been paid or declared by the Company for the six months ended 30th June, 2006.

PROSPECTS

The Company believes it will continue to deliver growth in sales and net profit due to increased demand by its customers, new product design capabilities and streamlined production programs. Going forward, the Company will continue to stay focusing on solidifying its position in the industry through technology innovation, rapid product development and delivery, and high customer satisfaction.