Shinhint Acoustic Link Holdings Limited
成謙聲匯控股有限公司
(Incorporated in the Cayman Islands with limited liability)
stock code: 2728

Annual Report 2005

Corporate Information

Board of Directors
Executive Directors
Mr. Cheung Wah Keung
(Chairman of the Board)
Mr. Ip Wai Cheong, Ernest
Mr. Wang Dong

Independent Non-Executive Directors
Mr. Lai Ming, Joseph
Dr. Lam King Sun, Frankie
Mr. Goh Gen Cheung

Audit Committee
Mr. Lai Ming, Joseph
(Committee Chairman)
Dr. Lam King Sun, Frankie
Mr. Goh Gen Cheung

Remuneration Committee
Mr. Cheung Wah Keung
(Committee Chairman)
Dr. Lam King Sun, Frankie
Mr. Goh Gen Cheung

Authorized Representatives
Mr. Cheung Wah Keung
Mr. Ip Wai Cheong, Ernest

Qualified Accountant
Mr. Chan Wing Hang

Company Secretary
Mr. Chan Wing Hang

Auditors
Deloitte Touche Tohmatsu

Registered Office
Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

Head Office
Unit 1506, 15th Floor,
Nanyang Plaza, 57 Hung To Road,
Kwun Tong, Hong Kong

Principal Place of Business in Hong Kong
Unit 1506, 15th Floor,
Nanyang Plaza, 57 Hung To Road,
Kwun Tong, Hong Kong

Principal Share Registrar and Transfer Office
Butterfield Bank (Cayman) Limited
Butterfield House, 68 Fort Street,
P.O. Box 705, George Town,
Grand Cayman, Cayman Islands,
British West Indies

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited

Legal Advisers
Cheng Wong Lam & Partners
Johnson Stokes & Master
Conyers Dill & Pearman, Cayman

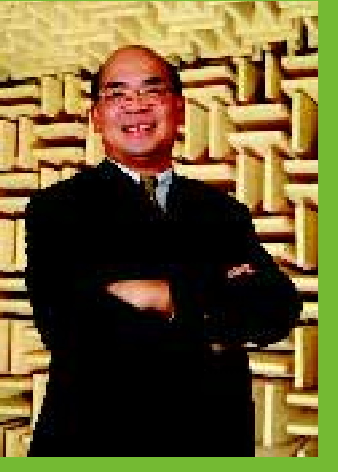
Stock Code
2728 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

Website
www.shinhint.com

Contents

Chairman's Statement

Dear Shareholders,



On behalf of the board of directors (the "Board") of Shinhint Acoustic Link Holdings Limited (hereafter the "Group"), I am delighted to present to shareholders the audited annual results of the Group for the year ended 31st December, 2005, the first annual results announcement since the shares of the Group were listed and commenced trading on the Main Board of The Stock Exchange of Hong Kong Limited on 14th July, 2005. The HK$60,000,000 gross proceeds raised have enabled the Group to enhance our manufacturing capabilities and capacity to meet clients' increasing demands, as well as strengthen our product development capabilities for digital wireless electro-acoustic peripheral products. I would like to take this opportunity to express our gratitude to those who contributed to the listing of the Group and our shareholders who render their invaluable support to the Group. In particular, our special thanks go to our pre-IPO strategic investors, Lucky Merit Holdings Limited and S. I. Technology Venture Capital Limited, who vested their unparalleled trust and confidence in us.

RESULTS

We look back on 2005 with certain degree of satisfaction, but we are also well aware of our limitations and seek ways for betterment. During the year under review, the Group's turnover climbed strongly by 91.8% from HK$529,946,000 in 2004 to HK$1,016,198,000, while net profit grew by 12.7% from HK$40,315,000 to HK$45,432,000. The significant growth in turnover was mainly attributable to our strategies of maximizing organic growth of our existing businesses which boosted shipment of the Group's multimedia, communication, and entertainment peripheral products as a result of stronger demand from the existing clients. The growth in net profit was slower than the increase of turnover primarily as a result of change of product mix as well as treatment of accounts under the new accounting policies

With our financial reserves standing at record high and our future outlook remaining optimistic, the Board recommended the payment of a final dividend of HK cents 2.8 per share, making the total dividend for the year amounting to HK cents 5.3 per share. The overall dividend payout ratio of the Group was approximately 31.2% during the year, or equivalent to a yield of 5.6%.

Chairman's Statement

BUSINESS DEVELOPMENT HIGHLIGHTS

During the past year, widespread adoption of digital technology in the lifestyle of consumer across the world have re-shaped the scene of the electro-acoustic peripheral industry. Consumers generally have become more demanding on the functional performance of their electro-acoustic peripherals. In addition, consumers were looking for products which are personal, portable, wearable, and stylish in design to align with their contemporary life style. Foreseeing this trend, the Group together with its customers had developed products which are user friendly, robust, high fidelity, and with contemporary appeal for consumers. These new products were welcome by the end users and thus brought accelerating sales growth for the Group.

Meanwhile, the Group made good progress in implementing the business plan outlined in the Prospectus. The Group established a research centre in Shenzhen, the PRC and further strengthened the R&D team by recruiting high caliber engineering experts to re-enforce our product design and development capabilities, particularly in relation to digital wireless electro-acoustic peripheral products. We also broadened our product range and facilitated cross-device application of our products.

On the operational side, the Group expanded the manufacturing facilities from 40 production lines as of 31st December, 2004 to 54 production lines by the end of year 2005, in order to fulfill the increased customer orders. Apart from investing in machineries and equipment to enlarge the production capacity, the Group also updated the management information system to enhance resources planning, material control and production management processes. The above initiatives have improved the overall operational efficiency and benefited the Group with greater economies of scale.

PROSPECTS

Looking into the future, with the definitive move towards digital broadcasting across the globe and break-through in digital technology, the Group expects the electro-acoustic peripheral market to continue to prosper and present it with even more business opportunities in the coming year. The Group has mapped out clear strategic directions to capture these new market potential.

With a dynamic team armed with ample relevant expertise and experience, we expect to continue to secure new contracts and develop new products with our existing customers. While the US will continue to be our major market, we will boost our presence in Asia and the European markets by extending our sales networks and setting up overseas sales offices.

The Group will continue to concentrate on enhancing our R&D capabilities to answer end-users' ever-changing demand for quality multimedia, communication, and entertainment peripherals, and to facilitate formulation of various technical and design solutions. We will further strengthen our leading position in the industry with the support of our vertically integrated production, strong manufacturing capabilities and superior engineering expertise. With an aim to enhance our revenue base and profitability in future, we hope to bring more value to our shareholders, and we treasure the unwavering support our staff, customers and business partners have extended to the Group.

Chairman's Statement

Last but not least, I am delighted and honoured to be selected as one of the winners of the Young Industrialists Awards of Hongkong in 2005. This award would not be possible without the team efforts of all at the Shinhint Group which made our business a success. Instead of regarding it as a self-recognition, I have been treating this award as a continuous reminder for myself to continue with my commitment to promoting the development of Hong Kong's industries.

Cheung Wah Keung
Chairman of the Board

21st April, 2006

Management Discussion and Analysis

Market Review

The electro-acoustic peripheral industry experienced healthy growth in 2005 driven by the boom of multi-media, communication, and entertainment products worldwide. Technological advancements in internet and digital technologies have enabled consumers to enjoy their contemporary life with greater mobility and instant access anytime, anywhere. Consumer demand for digital multi-media, communication, and entertainment products namely portable compressed music players, personal computers, gaming consoles, mobile phones in particular Bluetooth-enabled models, has been rocketing and is expected to continue to grow as those products become yet more user-friendly and affordable. The digital lifestyle is expected to spread among different age groups and cross-application of different multi-media products. That will in turn translate into derived demand for electro-acoustic peripherals that can complement or realize fully the performance and applications of the new and more powerful multi-media products. Electro-acoustic peripherals which are personal, portable, wearable, stylish, and can fit a diverse range of devices will undoubtedly be preferred over traditional products.

Business Review

Company Overview

Listed on 14th July 2005, Shinhint is one of the prominent manufacturing services providers of electro acoustic peripherals for leading consumer electronics brands. Armed with vertically integrated manufacturing facilities and expertise in electronic, acoustic, and mechanical engineering, the Group develops and produces a broad range of contemporary and life style enriching electro acoustic peripherals. These products including communication, entertainment, multi-media, audio peripherals, and other accessories for various consumer electronic devices such as personal computers, gaming consoles, mobile phones, compressed music players, as well as automobile and home theatres.

The Group achieved encouraging growth in turnover and profit for the fiscal year 2005, despite having to face adverse cost factors including pressure from the Renminbi appreciation, and increase in material, electricity and labour costs. The Group posted a turnover of HK$1,016,198,000, up from HK$529,946,000 last year, representing an increase of 91.8%. While the Group's profit attributable to shareholders increased by 12.7% to HK$45,432,000 (2004: HK$40,315,000). Basic earnings per share were HK cents 17 (2004: HK cents 18).

The Group's production facilities operated at 82.0% of their total capacity during the year. The net proceeds raised from the Group's share offering in July 2005 were used as planned and on schedule to enhance product research and development, manufacturing capabilities to cater for the expected increase of sales order in 2006 as well as sales channel expansion.

To better reflect the market dynamics under the rising popularity of digital applications, the Group has realigned its sales segments by product categories to enable formulation of business strategies for each specific segment. During the year under review, the Group focused on broadening its product range and facilitating cross-device application of its products. All the business segments registered significant growth during the year, re-affirming both the strong market demand for the products concerned, as well as consumers' acceptance of the products manufactured by the Group.

Management Discussion and Analysis

Communication Peripheral Business

Turnover of the Group's peripherals for communication devices such as mobile phones, line phones and internet phones recorded a 93.5% growth in 2005 to HK$162,247,000. Segment result went up 194.5% to HK$11,385,000, with the margin of this business segment surged from 4.6% last year to 7.0% this year. It has emerged to be a growth driver for the Group.

Both the accelerating penetration of mobile phones and internet phony have been fuelling demand for communication peripherals, especially those for supporting digital wireless applications. The Bluetooth digital wireless technology is expected to gain further market acceptance in the coming years. In addition, the management also sees tremendous potential in internet phony applications in the market and expects demand for its related products to take off in the near future and emerge as another growth driver for the Group. As a result, the Group will continue to devote dedicated resources to support the R&D activities in this business segment.

Entertainment Peripheral Business

The bullish economy in the USA and Europe in the passed year has boosted consumer demand for high quality personal consumer electronic products to enrich their leisure lives, which in turn derived a strong demand for high performance electro-acoustic peripherals. Sales of entertainment peripherals rose 102.2% to HK$289,150,000. Segment result increased from HK$9,707,000 to HK$18,882,000 and its margin was generally maintained at 6.5%. Close collaboration with key customers in the consumer electronic market has equipped the Group with in-depth understanding of market trends, as well as the technical know-how to satisfy the consumers' demand, and thus the confidence of capturing the vast potential in this market segment.

Multi-media Peripheral Business

The multi-media peripheral business segment includes highly adaptable electro-acoustic peripheral for use with digital consumer electronic products. The growing popularity of digital music and increasing internet penetration supported sales growth of the Group's peripherals for multi-media products. This business segment was the largest revenue contributor of the Group and achieved turnover of HK$440,769,000, a 116.0% surge, and a significant increase of 35.5% in segment result to HK$24,464,000 as compared with the previous year. Although the margin of this business segment dropped from 8.8% to 5.6% as a result of increased in shipment of more functionally sophisticated models which requires the use of more expensive material, the segment is expected to continue generating substantial contribution to the profits of the group as the sales of multi-media products will continue to grow and so will the demand for peripherals covered in this segment.

Audio Peripheral Business and Other Accessories

During the year under review, the Group's audio peripheral segment reported a substantial improvement of 339.0% in turnover from HK$10,604,000 last year to HK$46,548,000 this year. The growth was mainly attributable to secure of high volume orders from major customers. Although segmental profit soared from last year's HK$706,000 to HK$1,215,000 this year, its margin was reduced to 2.6% from 6.7% due to increase in material cost. Competitive pressure is expected to remain tough in this particular segment, and the Group will focus on enhancing operational efficiency to ensure the segment to continue generate positive impact at the bottom lines.

Customers

The Group continued to focus on providing manufacturing services to leaders in the multi-media product industry. To facilitate the development of new products, the Group's key customers, including leading international consumer electronics brand owners, collaborate closely with the Group to identify and analyse potential market opportunities and changing consumer needs. During the year under review, the Group strategically forged partnerships with a new customer who is a prominent player in the consumer electronic market engaged in the design, marketing and distribution of digital wireless communication products. The Group will continue to strengthen strategic relationships with existing customers, and at the same time seek to broaden its customer base by stepping up sales and marketing efforts.

FINANCIAL REVIEW

Results Performance

For the year ended 31st December, 2005, the Group's turnover increased by 91.8% from that of the previous year to reach HK$1,016,198,000 (2004: HK$529,946,000). This increase was driven by further expansion of sales to European market, where sales grew by 181.5% over the comparable period last year to HK$416,827,000. Gross profit amounted to HK$140,342,000 (2004: HK$90,481,000), representing an increase of 55.1% as compared with last year while profit attributable to shareholders amounted to HK$45,432,000 (2004: HK$40,315,000), representing an increase of 12.7%. Net profit margin dropped to 4.5% from 7.6% last year, reflecting the impact from a lower gross margin as well as change of accounting standard including expensing share-based compensation of HK$1,919,000 and charging of one-off expense of HK$5,570,000 due to issuance of new Shares on Listing of shares on Stock Exchange, as well as increase in headcount and expenditure due to the establishment of research centre in Shenzhen. In addition, a loss of HK$2,900,000 was posted due to the share of results of an associate.

During the year, basic earnings per share of the Group approximated at HK cents 17. The board of directors recommended the payment of a final dividend of HK cents 2.8 per share for the year ended 31st December, 2005. Together with the interim dividend of HK cents 2.5 per share already paid, total dividends for the year amounted to HK cents 5.3.

Liquidity and Financial Resources

As at 31st December 2005, the Group maintained a healthy cash level with cash and cash equivalents of HK$71,736,000 (2004: HK$50,099,000) and unutilised banking facilities of HK$9,043,000 (2004: HK$14,695,000). The Group's current ratio, being the proportion of total current assets against total current liabilities, was maintained at a stable level of 1.39 in 2005 compared to 1.33 in 2004.

Reflecting continuous improvement in the quality of the Group's assets, the gearing ratio of the Group decreased from 29.0% to 20.4% as at 31st December, 2005. The ratio was calculated by dividing total borrowings of HK$45,957,000 (2004: HK$31,205,000) by shareholders' equity of HK$224,809,000 (2004: HK$107,697,000).

As at 31st December, 2005, the Group's inventories increased to HK$173,492,000 (2004: HK$45,173,000). Inventories increase reflected primarily a significant increase of customer purchase order received on hand over the corresponding period. New ERP system is going to be implemented to enhance inventory and receivable management.

Management Discussion and Analysis

The cash outflow from operating activities amounted to HK$12,407,000, it was mainly due to significant increase in turnover in the last quarter of the year, and the trade receivables were received on schedule subsequently.

Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. Continuing this conservative approach to financial risk management, the Group worked during the year towards decreasing its gearing position. Since the Group's sales and raw material purchases are denominated in US dollars and Hong Kong dollars, the Board believes the Group will have sufficient foreign exchange to match foreign exchange requirements. Although part of its manufacturing overhead is denominated in Renminbi, the Group's exposure to Renminbi exchange risk is nominal. The Group will closely monitor the movement of the Renminbi exchange rate. During the year, the Group did not use any financial instrument for hedging purpose.

Contingent Liabilities

As at 31st December, 2005, the Group had no contingent liabilities.

Pledge on the Group's assets

As at 31st December, 2005, bank deposits of HK$9,877,000 (2004: HK$2,053,000) had been pledged to secure the Group's banking facilities.

Significant Capital Investments

During the year, the Group invested approximately HK$19,552,000 in acquiring the latest technological equipment, product design and development software and integrated management information system. The expenditures were mainly funded by proceeds from IPO.

PROSPECTS

Going forward, the Group sees surging market demand for personal, portable, wearable, compact and stylish, and highly adapted electro acoustic products that can bring quality acoustic experience to the consumers. For communication, multi-media, and entertainment devices to realise their sophisticated functional performance, they require the support of high quality electro acoustic peripherals. Heeding this need, the Group has mapped out certain strategic directions that will enable it to capture new market opportunities.

To strengthen its research and development supports to answer the ever-changing end-user demand for quality electro-acoustic peripherals and to facilitate the development of trend setting products, the Group will continue to foster the capability of its research centre in Shenzhen, the PRC and will recruit more experts with strong product development and design experiences to hasten the product development processes.

To maintain and enhance collaborative relationship with worldwide industry leaders and deepen penetration of the international market, the Group will set up three overseas offices in the short to medium term. Work in relation to the setting up of the Japan office is in its advanced stage and that of the US office is progressing according to plan. Both offices are scheduled to be operational within 2006. The Group also has plans for setting up an office in Europe.

Anticipating rapidly growing demand from the consumer market, the Group sees a significant portion of its future growth to be contributed by organic growth of its business with existing clients. Nevertheless, the Group will also endeavour to enlarge its customer base. It will employ focused marketing strategy to foster collaboration with industry leaders who will bring growth potential to the Group. Moreover, aiming to enhance return to shareholders, the Group will continue to explore opportunities for acquisition, or forming strategic partnerships with enterprises with advanced technological know-how in related fields that can bring values and synergies to the Group .

With all the above strategies in place, the Group will continue to strengthen its prominence in the industry and develop premium products that meet customers' demand, thereby assure its future success as well as better returns for its shareholders.

EMPLOYEES

As at 31st December, 2005, the Group had a total of about 4,300 employees in Hong Kong and in the PRC. Employees' cost (excluding directors' emoluments) amounted to approximately HK$65,942,000 (2004: HK$46,249,000). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

Corporate Governance Report

Shinhint is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders. Our commitment in terms of corporate governance is to provide high-quality products and services to the satisfaction of our customers; maintain high standards of business ethics and achieve these goals while, at the same time, providing satisfactory and sustainable returns to shareholders.

In addition, the group acts in a socially responsible manner through a variety of initiatives and sees this as part of its overall commitment to good corporate governance.

Shinhint has a Corporate Code of Conduct which sets out principles, values and standards of conduct expected of management and staff throughout the Group, and underpins our operating procedures and policies.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31st December, 2005 and up to the date of publication of this annual report, applied and complied with the principles in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation as stated in paragraph headed Chairman and Chief Executive Officer below.

SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by Directors and relevant employees (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director and relevant employee of the Company first on his appointment and thereafter twice annually, one month before the date of the board meeting to approve the Company's half-year result and annual result, with a reminder that the Director and relevant employee cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Securities Code, Directors and relevant employees of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Securities Code for the period covered by the annual report.

Corporate Governance Report

BOARD OF DIRECTORS

The Board of Directors (the "Board") of the Company consists of six members, including three Executive Directors, Mr. Cheung Wah Keung, Mr. Ip Wai Cheong, Ernest and Mr. Wang Dong; and three Independent Non-Executive Directors, Mr. Lai Ming, Joseph, Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung. Save as disclosed, there is no business or other relationship amongst members of the Board.

All Independent Non-Executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio between Executive Directors and Independent Non-Executive Directors is reasonable and adequate. The Board also believes that the participation of Independent Non-Executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all shareholders are considered and safeguarded.

All directors of the Company have access to timely information in relation to the Group's business and make further enquires when necessary. The Board has also agreed that directors may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, ensures the availability of resources as well as the effectiveness of its internal control including financial control.

The Company has arranged appropriate insurance cover on directors' and officers' liabilities in respect of legal actions against directors and senior management arising out of corporate activities.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has appointed three Independent Non-Executive Directors, one of whom has appropriate professional qualification in accounting and financial management expertise. All Independent Non-Executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision A.2.1 stipulated that the roles of Chairman of the Board (the "Chairman") and Chief Executive Officer should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. Cheung Wah Keung is the Chairman, the Chief Executive Officer and an Executive Director of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Corporate Governance Report

BOARD MEETING

During the meetings of the Board, Directors discussed and formulated the business policies and strategies, corporate governance, financial and internal control systems, reviewed the interim and final business results and other relevant important matters. All Directors had participated in these Board meetings. For those Directors who could not attend these meetings in person, they participated through electronic medium. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the management of the Company.

The notice of Board meeting will be given to all Directors at least 14 days prior to the date of the meeting. All Directors are given opportunities to include any matters to be discussed in the agenda.

The Company Secretary must ensure that all applicable rules and regulations are followed and prepare detailed minutes of each meeting. After the meeting, the draft minutes of the meeting shall be circulated to all Directors for comments and approval as soon as practicable. All Board members shall be given a copy of the minutes. Should a matter being considered which involve a potential conflict of interest of a Director, the Director involved in the transaction will be requested to leave the boardroom and abstain from voting. The matter will be discussed and resolved by other Directors.

During the year, the number of meetings held and attended by the members is as follows:

	Board of Directors No. of meetings	
	Held	**Attended**
Executive Directors		
Mr. Cheung Wah Keung(1)	2	2
Mr. Ip Wai Cheong, Ernest(1)	2	2
Mr. Wang Dong(1)	2	2
Mr. Feng Tian(2)	2	2
Independent Non-Executive Directors		
Mr. Lai Ming, Joseph(3)	2	2
Dr. Lam King Sun, Frankie(3)	2	2
Mr. Goh Gen Cheung(3)	2	2

(1) appointed on 11th May, 2005

(2) appointed on 11th May, 2005 and resigned on 6th March, 2006

(3) appointed on 25th June, 2005

Board committees including Audit Committee and Remuneration Committee all follow the applicable principle, practice and procedures used in the Board meeting.

DIRECTORS' TERMS OF APPOINTMENT

All Directors, including Independent Non-Executive Directors, are appointed for a term of three years. All Directors retire from their office by rotation and subject to re-election at an Annual General Meeting at least once every three year.

AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Independent Non-Executive Directors. The members are Mr. Lai Ming, Joseph, Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung. It is chaired by Mr. Lai Ming, Joseph, who has the appropriate professional accounting qualification and financial management expertise. All the members served from 25th June, 2005 and the Company Secretary acts as secretary.

Regular attendees at the Audit Committee meetings include the Head of Finance and the external auditors. The Committee meets with the external auditors without the presence of company management. The terms of reference of the Audit Committee follow the CG Code.

The Audit Committee met two times each year. Each meeting received written reports from the external auditors which deal with matters of significance arising from the work conducted since the previous meeting. The work of the Committee during the year included consideration of the following matters:

- the completeness and accuracy of the annual and interim financial statements;
- recommendations to the Board, for the approval by shareholders, of the reappointment of Deloitte Touche Tohmatsu as the external auditors and the auditors' remuneration;
- the Group's policy regarding connected party transactions and the nature of such transactions;
- reviewing the Company's compliance with regulatory and statutory requirements;
- the Group's risk management processes; and
- developments in accounting standards and the Group's response, including the preparation for adoption of Hong Kong Financial Reporting Standards.

The Audit Committee assesses the independence of the external auditors during the year through a series of questions and the external auditors also formally communicate to the Audit Committee their business relationship with the Group and any other independence matters. The annual results for the year ended 31st December, 2005 have been reviewed by the Audit Committee.

An analysis of the fees paid to Deloitte Touche Tohmatsu on audit work is set out in note 8 to the financial statement on page 52.

AUDIT AND INTERNAL CONTROL

The Board has overall responsibility for the system of internal control and conducts regular reviews of its effectiveness. The system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding shareholders' investment and the Group's assets. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately, rather than to eliminate the risk of failing to achieve business objectives. The Group's internal controls can only provide reasonable and not absolute assurance against misstatement or loss.

The Board confirms that there is a process for identifying, evaluating, and managing the significant risks to the achievement of Group's strategic objectives. The process has been in place throughout the year and also accorded with the guidance set out in the CG Code.

The process used by the Audit Committee to review the effectiveness of the system of internal control includes:

- discussions with management on risk areas identified by management and/or in the audit process;

- the review of significant issues arising from external audit reports.

The Company is in the preparation of setting up internal audit function which is responsible for the review and assessment of the operational activities and internal control of the Company including the conduct of operational audits on practices, procedures, financial control and risk management. The internal audit function, once established, will maintain a close working relationship with the external auditors and report to the Audit Committee periodically.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two Independent Non-Executive Directors – Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung and one Executive Director – Mr. Cheung Wah Keung, who was appointed as the Chairman of the committee.

The primary duties of the Remuneration Committee include the following:

1. The Committee shall make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. The Committee shall exercise the powers of the Board to determine:

   (A) the remuneration packages of individual Executive Directors and senior management, (including salaries, bonuses, benefits in kind and the terms on which they participate in any share or other incentive scheme and any provident fund or other retirement benefit scheme) taking into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the group and desirability of performance-based remuneration; and

   (B) the terms and conditions on which the employment of any Executive Director or senior management shall be terminated to ensure that any compensation payment is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

3. The Committee shall review and approve:

   (A) performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; and

   (B) compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

4. The Committee shall make recommendation to the Board on the remuneration of Independent Non-Executive Directors.

5. The Committee should ensure that no Director or any of his associates is involved in deciding his own remuneration.

6. The Committee shall report to the Directors of the Company its activities as the Directors may require from time to time.

7. The Committee shall exercise such other powers, authorities and discretions, and perform such other duties, of the Directors in relation to the remuneration of the Executive Directors and senior management as the Directors may from time to time delegate to it, having regard to the CG Code of the Listing Rules.

8. In exercising its power, authorities and discretions and performing its duties, the Committee shall take full account of the CG Code and the Listing Rules.

In order to be able to attract and retain staff of suitable calibre, the Group provides a competitive remuneration package. This comprises salary, housing and provident fund. Although the remuneration of these executives is not entirely linked to the profits of the company or division in which they are working, it is considered that, given the volatility of various businesses within the Group, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of major shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with major shareholders is through the Company Secretary.

Communication with shareholders is a high priority. Printed copies of the Annual and Interim Reports are sent to all shareholders. In order to promote effective communication, the Company maintains its website at www.shinhint.com on which financial and other information relating to the Company and its business are disclosed.

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital is held by the public at all times.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements, the Directors have selected appropriate accounting policies, applied them consistently, made judgments and estimation that are prudent, fair and reasonable, ensured all applicable accounting standards are followed and prepared the financial statements on a going concern basis. The Directors are also responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

The auditors' reporting responsibility is set out on page 27 of this annual report.

Biographical Details of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Cheung Wah Keung, aged 45, has been a Director of the Group since August 1992 and was appointed Chairman and Chief Executive Officer of the Group. Mr. Cheung is responsible for the overall strategic and corporate planning, business development and management of the Group. He obtained a Bachelor degree of Business Administration from the Chinese University of Hong Kong and has over 13 years of experience in management of trading and manufacture of consumer electronic products.

Mr. Ip Wai Cheong, Ernest, aged 47, has been a Director of the Company since May 2005. He joined Crown Million Industries (International) Limited in December 2004 and is responsible for the operation of the Company. Prior to joining the Group, he worked in Nestle Group for 17 years covering functions such as strategic as well as operational management functions. Mr. Ip graduated from the Chinese University of Hong Kong with a Bachelor's and a Master's degree in Business Administration in December 1981 and October 1989 respectively.

Mr. Wang Dong, aged 47, has been a Director of the Company since May 2005. Mr. Wang is responsible for procurement, production, quality control and warehousing management of the Group. Mr. Wang joined Guangzhou Guoguang-Shinhint Electronic Co. Ltd. for 4 years since August 1997 where he was responsible for production. Mr. Wang subsequently worked at Tai Sing Industrial Company Limited for approximately 4 years since December 2001 being responsible for production. Mr. Wang obtained a Diploma in physics from Huazhong Normal University, the PRC.

Independent Non-Executive Directors

Mr. Lai Ming, Joseph, FCPA, FCMA, FCPA (Australia), aged 60, appointed as an Independent Non-Executive Director of the Company in June 2005. Mr. Lai was the president of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in 1986 and is presently on the Audit Committee and the Investigation Panel. Mr. Lai is also an adviser to the Corporate Governance Committee of the Hong Kong China Division of CPA (Australia), a founding member and directors of Opera Hong Kong Ltd. and a director of the Research and Development Corporation Ltd. of the Hong Kong University of Science and Technology.

Dr. Lam King Sun, Frankie, aged 44, appointed as an Independent Non-Executive Director of the Company in June 2005. With over 20 years of experience in human resources and general management. Dr. Lam earned his Ph. D. degree and Master of Science degree from Purdue University in the USA in August 1986 and December 1985 respectively, and Bachelor and Master of Arts degrees from the University of North Texas in December 1982 and August 1983 respectively.

Mr. Goh Gen Cheung, aged 58, appointed as an Independent Non-Executive Director of the Company in June 2005. Mr. Goh has over 30 years of experience in the field of treasury, finance and banking in Hong Kong and the Asia Pacific Region. Mr. Goh is an associate member of the Institute of Bankers and obtained a Master's degree in Business Administration from the University of East Asia in Macau in February 1987.

BOARD OF DIRECTORS *(Continued)*

Senior Management

Mr. Fan Kai Yiu, aged 41, joined the Group in May 2000 and is the director of business development of Shinhint. Mr. Fan has been responsible for the sales and marketing functions of the Group. Mr. Fan received a Bachelor of Arts degree in English Literature from Chu Hai College in Hong Kong in January 1987 and a graduate certificate in Marketing from Royal Melbourne Institute of Technology in Australia in November 1999.

Mr. Tang Chung Hong, Philip, aged 45, joined the Group in July 1996 and is the director of supply chain and sales management of Shinhint. Mr. Tang is responsible for sourcing of raw materials and management of purchase orders in support of the sales and marketing division of the Group.

Mr. Leung Chi Keung, Frederick, aged 44, joined the Group in September 1995 and is the director of plastics production of Shinhint. Mr. Leung is responsible for overseeing the production management of plastic parts for the Group. Mr. Leung has approximately 10 years of experience in production management. Mr. Leung obtained a Bachelor of Business (Business Administration) degree from Royal Melbourne Institute of Technology in Australia in December 2002.

Mr. Kwan Tsz Bun, aged 51, is the deputy general manger of Shinhint. Mr. Kwan is responsible for overseeing the production of plastics and moulds. Prior to joining the Group in November 1996, Mr. Kwan has worked as an engineer for plastic products in Electronic Industry Limited (a subsidiary of General Electric Company) for approximately seven years.

Mr. Wei Shi Xiong, aged 64, joined the Group as the chief engineer in Shinhint in October 2004 and has been responsible for the development of consumer electronic products. Mr. Wei has over 40 years' engineering experience in the electro-acoustic industry. Mr. Wei holds a Master's degree from Nanjing University of the PRC in August 1964 with emphasis on acoustics. He was also a lecturer for acoustics in the Shandong College of Oceanography in July 1982 and a visiting research scholar in physics (acoustics) at the Howard University of the US in April 1981.

Mr. Chan Yick Fung, aged 38, joined the Group as the consultant for radio frequency ("RF") technology development in February 2004 and has been responsible for providing training in RF and operating RF testing equipments. Mr. Chan was appointed as the director of the research and development department of the Group with effect from April 2005 and he also advises on sourcing and evaluation of components, improvement of product quality and latest technological trends. Mr. Chan received a Bachelor of Science degree in electronic engineering from the City University (formerly known as City Polytechnic) of Hong Kong in November 1989, and a Postgraduate Certificate in Business Administration in December 1996 and a Master's degree in Business Administration from the City University of Hong Kong in November 2003.

Company Secretary and Qualified Accountant

Mr. Chan Wing Hang, ACCA, CPA, aged 28, is the Company Secretary and the Qualified Accountant of the Group. Mr. Chan is responsible for company secretarial work and formulation of financial system of the Group. He has 7 years of experience in the field of accounting. Mr. Chan graduated with a Bachelor degree in Business Administration from the City University of Hong Kong in November 1999. Mr. Chan is also an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Prior to joining the Group in January 2005, he worked in a listed company in Hong Kong.

Report of the Directors

The Directors of the Company present their annual report and the audited financial statements for the year ended 31st December, 2005.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE

The Company was incorporated and registered in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 26th January, 2005. Pursuant to the corporate reorganisation ("Reorganisation") to rationalise the structure of the Group in preparation for the public listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 11th May, 2005. The shares of the Company were listed on the Stock Exchange on 14th July, 2005.

Details of the Reorganisation are set out in the Prospectus and note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding. Particulars of the Company's principal subsidiaries are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 28.

A subsidiary of the Group declared dividends of approximately to HK$25,000,000 to its then shareholders before the Reorganisation which was completed on 11th May, 2005.

The Directors have recommended the payment of a final dividend of HK cents 2.8 per share to the shareholders on the register of members on 22nd May, 2006, amounting to HK$8,495,000.

The payment of dividends is subject to the approval of the shareholders at the annual general meeting of the Company to be held on 25th May, 2006 (the "Annual General Meeting").

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year and details of the Group's property, plant and equipment are set out in note 14 to the accompanying financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements. During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Cheung Wah Keung	(appointed on 11th May, 2005)
Mr. Ip Wai Cheong, Ernest	(appointed on 11th May, 2005)
Mr. Wang Dong	(appointed on 11th May, 2005)
Mr. Feng Tian	(appointed on 11th May, 2005 and resigned on 6th March, 2006)

Independent Non-Executive Directors

Mr. Lai Ming, Joseph	(appointed on 25th June, 2005)
Dr. Lam King Sun, Frankie	(appointed on 25th June, 2005)
Mr. Goh Gen Cheung	(appointed on 25th June, 2005)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Ip Wai Cheong, Ernest and Mr. Wang Dong will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the Directors has entered into a service contract with the Company commencing from the date of employment for a term of three years. Executive Directors may be terminated by not less than three months' prior notice in writing served by either party on the other.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2005, the interests of the directors and chief executives in the shares of the Company, underlying shares in respect of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(1) Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest and capacity	Total number of ordinary shares	Total number of underlying shares	Approximate percentage of interest
Cheung Wah Keung	Interest in a controlled corporation *(Note 1)*	152,655,473		50.89%
	Beneficial owner	300,000		0.10%
Ip Wai Cheong, Ernest	Beneficial owner	1,900,802		0.63%
	Beneficial owner *(Note 2)*		3,397,500	1.13%

Notes:

1. 152,655,473 Shares were held by Pro Partner Developments Limited, which is wholly owned by Mr. Cheung Wah Keung.

2. Mr. 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 Scheme" section below.

All the interests stated above represented long positions. As at 31st December, 2005, the directors and chief executive had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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 31st December, 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 as the pre-IPO Share Option as follows:

		Number of share options						
	Date of grant	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2005	Option period	Subscription price per share
Director								
Mr. Ip Wai Cheong, Ernest	11/5/2005	3,397,500	–	–	–	3,397,500	14/1/2006 31/12/2007	HK$0.01

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section "Share Option Scheme" above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the section "Connected Transactions" below, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

Pursuant to the supply agreement dated 25th June, 2005 between Crown Million Industries (International) Limited ("CMI"), and Dongguan Guanman Acoustic Company Limited. ("DGAC"), a connected person of the Company by virtue of being ultimately controlled by Mr. Ip Wai Cheong, Ernest, an Executive Director of the Company, DGAC had agreed to supply CMI with speakers for automobile and plasma television for a term of two years commencing on 1st January, 2005 until 31st December, 2006 in accordance with the terms of the sale and purchase contracts to be entered into between the parties from time to time during the term of the agreement. The continuing connected transaction contemplated under this supply agreement is subject to reporting, announcement and independent shareholders' approval requirements, but waiver from strict compliance therewith (except the reporting requirement) has been obtained from the Stock Exchange. For the year ended 31st December, 2005, the total sales by DGAC to CMI amounted to HK$87,483,000, which did not exceed the annual cap of HK$90,000,000 prescribed for the year ended 31st December, 2005 as disclosed in the Prospectus.

The Independent Non-Executive Directors of the Company have reviewed the continuing connected transactions and confirm that these transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms that are fair and reasonable; and

c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For further details regarding the above continuing connected transactions, please refer to note 36 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, as far as known to the Directors, the following persons (other than the directors or chief executives of the Company) who had 5% or more interests in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the shares of the Company

Name of shareholder	Nature of interest and capacity	Total number of shares held	Approximate percentage of interest
Pro Partner Developments Limited	Beneficial owner	152,655,473	50.89%
Lucky Merit Holdings Limited *(Note 1)*	Beneficial owner	16,500,000	5.50%
New World Development Company Limited *(Note 1)*	Corporate	16,500,000	5.50%
S. I. Technology Venture Capital Limited *(Note 2)*	Beneficial owner	16,500,000	5.50%
Shanghai Industrial Investment (Holdings) Company Limited *(Note 2)*	Corporate	16,500,000	5.50%
Cheung Lup Ying	Beneficial owner	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.

All the interests stated above represented long positions. As at 31st December, 2005, the substantial shareholders of the Company had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REMUNERATION POLICY

The remuneration policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees, details of the Scheme is set out under the section headed "Share Option Scheme" above.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles although there are no restrictions against such rights under the laws in the Cayman Islands.

EMPLOYEES

As at 31st December, 2005, the Group had a total of about 4,300 employees in Hong Kong and the PRC. Employees' cost (excluding directors' emoluments) amounted to approximately HK$65,942,000 (2004: HK$46,249,000). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2005, the five largest customers accounted for approximately 97.5% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 64.5% of the Group's total turnover.

For the year ended 31st December, 2005, the five largest suppliers accounted for approximately 20.5% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 5.1% of the Group's total purchases.

At no time during the year did any Director, any associate of a Director or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in any of the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float at the latest practicable date prior to issue of annual report.

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 as at 31st December, 2005, which continued to exist and were discloseable pursuant to Rule 13.13 of the Listing Rules:

Name of entity (and affiliated companies)	Name of advances giving rise to the disclosure obligation	Aggregate amount due to the Group as at 31st December, 2005 *HK$*	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	234,745,000	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 system for PCs, compressed audio players and other multimedia devices	33,018,000	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	26,840,000	Unsecured, interest free and with payment terms of approximately 30 to 45 days

AUDITORS

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheung Wah Keung
Chairman

21st April, 2006

Auditors' Report

TO THE MEMBERS OF SHINHINT ACOUSTIC LINK HOLDINGS LIMITED
成謙聲匯控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shinhint Acoustic Link Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 28 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21st April, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Turnover	5	**1,016,198**	529,946
Cost of sales		**(875,856)**	(439,465)
Gross profit		**140,342**	90,481
Other income	6	**1,958**	3,460
Selling and distribution costs		**(18,373)**	(12,612)
Administrative expenses		**(65,543)**	(33,798)
Amortisation of goodwill arising on acquisition of additional interest in a subsidiary		**–**	(131)
Release of negative goodwill arising on acquisition of subsidiaries		**–**	1,196
Revaluation increase in respect of investment properties		**–**	1,463
Other expenses		**–**	(207)
Finance costs	7	**(2,014)**	(1,419)
Share of results of an associate		**(2,900)**	(38)
Profit before taxation	8	**53,470**	48,395
Taxation	9	**(8,029)**	(7,530)
Profit for the year		**45,441**	40,865
Attributable to:			
Equity holders of the parent		**45,432**	40,315
Minority interests		**9**	550
		45,441	40,865
Dividends	11	**7,500**	25,000
Earnings per share	12		
Basic (HK dollar)		**0.17**	0.18
Diluted (HK dollar)		**0.17**	N/A

Consolidated Balance Sheet

As at 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Non-current Assets			
Investment properties	13	–	4,200
Property, plant and equipment	14	57,085	51,133
Goodwill	15	–	70
Negative goodwill	16	–	(1,906)
Investment in an associate	18	5,874	8,609
Club membership	19	978	978
Pledged bank deposits	23	3,116	301
		67,053	63,385
Current Assets			
Inventories	20	173,492	45,173
Trade debtors, deposits and prepayments	21	335,261	136,332
Amount due from a related company	22	–	4
Tax recoverable		–	653
Pledged bank deposits	23	6,761	1,752
Bank balances and cash	24	71,736	50,099
		587,250	234,013
Current Liabilities			
Trade creditors and accrued charges	25	354,262	119,122
Bills payable	25	2,752	9,346
Amount due to a related company	26	16,179	–
Amount due to a joint venture partner		–	2,331
Dividends payable		–	17,000
Taxation		5,290	2,751
Obligations under finance leases – due within one year	27	1,345	2,537
Bank borrowings – due within one year	28	41,503	23,516
		421,331	176,603
Net Current Assets		165,919	57,410
		232,972	120,795

Consolidated Balance Sheet

As at 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Capital and Reserves			
Share capital	29	**3,000**	5,000
Reserves		**221,809**	102,697
Equity attributable to equity holders of the parent		**224,809**	107,697
Minority interests		**–**	980
Total Equity		**224,809**	108,677
Non-current Liabilities			
Obligations under finance leases – due after one year	27	**108**	1,448
Bank borrowings – due after one year	28	**4,454**	7,689
Deferred taxation	31	**3,601**	2,981
		8,163	12,118
		232,972	120,795

The consolidated financial statements on pages 28 to 73 were approved and authorised for issue by the Board of Directors on 21st April, 2006 and are signed on its behalf by:

Cheung Wah Keung
DIRECTOR

Ip Wai Cheong, Ernest
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* (Note a)	Capital reserves *HK$'000* (Note b)	Investment property revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Share option reserve *HK$'000*	Retained profits *HK$'000*	Total equity attributable to equity holders of the parent *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1st January, 2004	5,000	–	–	(854)	–	(96)	–	87,832	91,882	10,861	102,743
Exchange differences on translation of foreign operations	–	–	–	–	–	281	–	–	281	82	363
Surplus on revaluation of investment properties	–	–	–	–	219	–	–	–	219	–	219
Net income recognised directly in equity	–	–	–	–	219	281	–	–	500	82	582
Profit for the year	–	–	–	–	–	–	–	40,315	40,315	550	40,865
Total recognised income for the year	–	–	–	–	219	281	–	40,315	40,815	632	41,447
Interim dividend declared in respect of 2004	–	–	–	–	–	–	–	(25,000)	(25,000)	–	(25,000)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(10,513)	(10,513)
At 31st December, 2004	5,000	–	–	(854)	219	185	–	103,147	107,697	980	108,677
Effects of changes in accounting policies (see Note 2)	–	–	–	854	(219)	–	–	1,271	1,906	–	1,906
At 1st January, 2005 as restated	5,000	–	–	–	–	185	–	104,418	109,603	980	110,583
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	110	–	–	110	(17)	93
Profit for the year	–	–	–	–	–	–	–	45,432	45,432	9	45,441
Total recognised income for the year	–	–	–	–	–	110	–	45,432	45,542	(8)	45,534
Effect on capital structure of the group reorganisation	(4,950)	–	4,950	–	–	–	–	–	–	–	–
Issue of shares at premium	759	82,641	–	–	–	–	–	–	83,400	–	83,400
Issue of shares on capitalisation of share premium account	2,191	(2,191)	–	–	–	–	–	–	–	–	–
Recognition of equity -settled share based payment	–	–	–	–	–	–	1,919	–	1,919	–	1,919
Transaction costs attributable to issue of new shares	–	(8,155)	–	–	–	–	–	–	(8,155)	–	(8,155)
Interim dividend declared in respect of 2005	–	–	–	–	–	–	–	(7,500)	(7,500)	–	(7,500)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(972)	(972)
At 31st December, 2005	3,000	72,295	4,950	–	–	295	1,919	142,350	224,809	–	224,809

Notes:

(a) Special reserve represents the difference between the nominal value of the entire issued share capital of Shinhint Industries Limited and the aggregate nominal value of the shares issued by the Company pursuant to the group reorganisation (see Note 1).

(b) Capital reserves represented goodwill arising from the acquisition of a subsidiary.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
Operating activities		
Profit before taxation	**53,470**	48,395
Adjustments for:		
Finance costs	**2,014**	1,419
Shares issue expenses	**5,570**	–
Share-based payment expense	**1,919**	–
Share of results of an associate	**2,900**	38
Impairment loss on goodwill	**70**	–
Amortisation of goodwill	**–**	131
Depreciation	**13,374**	10,261
Revaluation increase in respect of investment properties	**–**	(1,463)
Interest income	**(935)**	(54)
Loss on disposal of property, plant and equipment	**218**	429
Loss on disposal of investment properties	**74**	–
Release of negative goodwill	**–**	(1,196)
Operating cash flows before movements in working capital	**78,674**	57,960
(Increase) decrease in inventories	**(128,319)**	15,408
(Increase) decease in trade debtors, deposits and prepayments	**(198,929)**	2,140
Decrease in amount due from a joint venture partner	**–**	274
Decrease in amounts due from related companies	**4**	25,680
Increase (decrease) in trade creditors and accrued charges	**235,140**	(50,885)
(Decrease) increase in bills payable	**(6,594)**	1,472
Increase in amount due to a related company	**16,179**	–
Decrease in amount due to an associate	**–**	(2,290)
(Decrease) increase in amount due to a joint venture partner	**(2,331)**	2,331
Cash (used in) generated from operations	**(6,176)**	52,090
Hong Kong Profits Tax paid	**(4,615)**	(7,795)
Overseas tax refunded (paid)	**398**	(891)
Interest paid	**(2,014)**	(1,419)
Net cash (used in) from operating activities	**(12,407)**	41,985

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
Investing activities		
Purchases of property, plant and equipment	**(19,552)**	(19,434)
Proceeds on disposal of property, plant and equipment	**8**	2,170
Proceeds on disposal of investment properties	**4,126**	–
Increase in pledged bank deposits	**(7,824)**	(1,101)
Interest received	**935**	54
Net cash used in investing activities	**(22,307)**	(18,311)
Financing activities		
Repayment of obligations under finance leases	**(2,532)**	(5,095)
Proceeds on issue of shares	**83,400**	–
Shares issue expenses	**(13,725)**	–
New bank borrowings raised	**24,298**	28,770
Net other borrowings repaid	**–**	(33)
Repayment of bank borrowings	**(9,546)**	(16,592)
Dividends paid	**(24,500)**	(26,000)
Dividends paid to minority interests	**(972)**	(10,513)
Net cash from (used in) financing activities	**56,423**	(29,463)
Net increase (decrease) in cash and cash equivalents	**21,709**	(5,789)
Effect of foreign exchange rate changes	**(72)**	368
Cash and cash equivalents at beginning of the year	**50,099**	55,520
Cash and cash equivalents at end of the year, representing bank balances and cash	**71,736**	50,099

1. BASIS OF PRESENTATION

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. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 14th July, 2005. The Company's parent and ultimate holding company is Pro Partner Developments Limited (incorporated in the British Virgin Islands). The addresses of the registered office and the principal place of business of the Company are disclosed in the Corporate Information to the annual report.

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 SEHK, 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 Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st December, 2005 and 2004 have been prepared using the principles of merger accounting.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 38.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 Hong Kong Institute of Certified Public Accountants ("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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentations 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 years are prepared and presented:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Business Combinations

In the current year, 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 and goodwill/negative goodwill existed on 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, 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 of HK$854,000 has been transferred to the Group's retained earnings on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$322,000 with a corresponding decrease in the cost of goodwill (see Note 15). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such 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 year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

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 after 1st January, 2001 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 derecognised all negative goodwill on 1st January, 2005. A corresponding adjustment to the Group's retained earnings of HK$1,906,000 has been made.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Investment Properties

In the current year, the Group has 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 profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficit 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 a revaluation surplus 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 the investment property revaluation reserve at 1st January, 2005 has been transferred to the Group's retained earnings (see Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. However, the effect of this change in accounting policy is insignificant to the Group's results for the current and prior years.

Share-based Payments

In the current year, 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 share options granted to directors and employees of the Group, 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 year and no share options were granted before 1st January, 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial Instruments

In the current year, 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 the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured 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) in accordance with the requirements of HKAS 39. However, this change in accounting policy has had no material impact to the Group's results for the current and prior years.

2A. 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 years are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Decrease in negative goodwill released to income	1,196	–
Expenses in relation to share options granted to a director	1,919	–
Decrease in profit for the year	3,115	–

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

	2005 *HK$'000*	2004 *HK$'000*
Decrease in release of negative goodwill arising on acquisition of subsidiaries	1,196	–
Increase in administrative expenses	1,919	–
Decrease in profit for the year	3,115	–

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

	As at 31st December, 2004 (originally stated)	Impact of HKAS 1 and 27	Impact of HKAS 40	Impact of HKFRS 3	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet item					
Negative goodwill	(1,906)	–	–	1,906	–
Total effect assets	(1,906)	–	–	1,906	–
Investment property revaluation reserve	219	–	(219)	–	–
Capital reserves	(854)	–	–	854	–
Retained profits	103,147	–	219	1,052	104,418
Minority interests	–	980	–	–	980
Total effects on equity	102,512	980	–	1,906	105,398
Minority interests	980	(980)	–	–	–

The adoption of the new HKFRSs has had no material effect to the Group's equity on 1st January, 2004.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] *Effective for annual periods beginning on or after 1st January, 2007.*
[2] *Effective for annual periods beginning on or after 1st January, 2006.*
[3] *Effective for annual periods beginning on or after 1st December, 2005.*
[4] *Effective for annual periods beginning on or after 1st March, 2006.*

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment test

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition, after reassessment, is recognised immediately in profit or loss.

As explained in Note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Club membership

Club membership with indefinite useful life are carried at cost less any identified impairment loss.

Investment in an associate

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade debtors, deposits, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade creditors, bills payable, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method after initial recognition.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over the useful life of the project. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to the retirement benefit schemes are charged as an expenses as they fall due.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade debtors, deposits, pledged bank deposits, bank balances and cash, trade creditors, bills payable, amount due to a related company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

Interest rate risk reflects the risk that the Group might expose through the impact of rate changes on interest-bearing financial assets. Interest-bearing financial assets are mainly balances with banks which are all short term in nature. Interest-bearing financial liabilities are mainly bank loans which are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The management will consider hedging significant interest rate exposure should the need arises.

(ii) Foreign currency risk

Certain trade debtors and trade creditors of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 97.5% of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit period. The Group also reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimised.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitor its cash flow position.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value

The carrying amount of the Group's financial instruments (including trade debtors, pledged bank deposits, bank balances and cash, trade creditors, bills payable, amount due to a related company) approximates to their fair value.

The carrying amount of bank borrowings, which are arranged at floating rates, approximates to its fair value.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

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

Business segments

The Group is currently organised into five revenue streams – sale of communication products, multi-media products, entertainment products, audio products and others. These revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2005

	Communication products	**Multi-media products**	**Enter-tainment products**	**Audio products**	**Others**	**Con-solidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	162,247	440,769	289,150	46,548	77,484	1,016,198
RESULT						
Segment result	11,385	24,464	18,882	1,215	2,850	58,796
Unallocated other income						1,619
Unallocated corporate expenses						(2,031)
Finance costs						(2,014)
Share of results of an associate	–	–	–	–	(2,900)	(2,900)
Profit before taxation						53,470
Taxation						(8,029)
Profit for the year						45,441

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	93,352	253,605	154,665	26,782	30,414	558,818
Investment in an associate	–	–	–	–	5,874	5,874
Unallocated corporate assets						89,611
Consolidated total assets						654,303
LIABILITIES						
Segment liabilities	62,540	169,899	103,301	17,942	19,995	373,677
Unallocated corporate liabilities						55,817
Consolidated total liabilities						429,494

Other information

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Un-allocated	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	2,634	7,279	4,009	795	447	4,388	19,552
Depreciation	1,889	5,221	2,938	570	396	2,360	13,374
Loss on disposal of property, plant and equipment	38	104	58	11	7	–	218
Loss on disposal of investment properties	–	–	–	–	–	74	74

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2004

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	83,842	204,068	143,009	10,604	88,423	529,946
RESULT						
Segment result	3,866	18,059	9,707	706	14,775	47,113
Unallocated other income						3,214
Unallocated corporate expenses						(1,938)
Revaluation increase in respect of investment properties						1,463
Finance costs						(1,419)
Share of result of an associate	–	–	–	–	(38)	(38)
Profit before taxation						48,395
Taxation						(7,530)
Profit for the year						40,865

Balance sheet

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	35,641	86,750	61,672	4,508	38,302	226,873
Investment in an associate	–	–	–	–	8,609	8,609
Unallocated corporate assets						61,916
Consolidated total assets						297,398
LIABILITIES						
Segment liabilities	20,729	50,454	33,946	2,622	20,714	128,465
Unallocated corporate liabilities						60,256
Consolidated total liabilities						188,721

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Other information

	Communication products HK$'000	Multi-media products HK$'000	Enter-tainment products HK$'000	Audio products HK$'000	Others HK$'000	Un-allocated HK$'000	Con-solidated HK$'000
Capital expenditure	3,103	7,184	4,546	383	2,317	3,118	20,651
Depreciation	1,421	3,290	2,296	175	1,235	1,844	10,261
Loss on disposal of property, plant and equipment	76	177	111	9	56	–	429

Geographical segments

Segment Information regarding the Group's sales by geographical market, irrespective of the origin of the goods is presented below:

	Turnover by geographical market	
	2005	2004
	HK$'000	*HK$'000*
Asia	**164,892**	114,359
North America	**434,479**	267,525
Europe	**416,827**	148,062
	1,016,198	529,946

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Asia	**429,660**	206,801	**19,522**	20,651
North America	**108,662**	56,387	**–**	–
Europe	**115,981**	34,210	**–**	–
	654,303	297,398	**19,522**	20,651

6. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Bank interest income	**935**	54
Sundry income	**1,023**	3,406
	1,958	3,460

7. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Finance charges on obligations under finance leases	**130**	279
Interest on bank borrowings wholly repayable within five years	**1,884**	1,140
	2,014	1,419

8. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	**1,160**	897
(Over)underprovision in prior years	**(10)**	26
	1,150	923
Depreciation		
– owned assets	**12,875**	9,206
– assets held under finance leases	**499**	1,055
	13,374	10,261
Net exchange loss	**2,415**	154
Directors' emoluments (note 10)	**5,572**	2,127
Retirement benefit scheme contributions (note 35)	**1,525**	1,444
Other staff costs	**64,417**	44,805
Total staff costs	**71,514**	48,376
Gross rental income	**(12)**	(191)
Less: Outgoings	**–**	20
Net rental income	**(12)**	(171)
Minimum lease payments under operating leases in respect of rented premises and production plant	**8,099**	8,236
Research and development costs	**3,347**	13
Shares issue expenses	**5,570**	–
Impairment loss on goodwill (included in administrative expenses)	**70**	–
Loss on disposal of property, plant and equipment	**218**	429
Loss on disposal of investment properties	**74**	–
Shipping and handling expenses (included in selling and distribution costs)	**15,754**	10,090
Share of tax of an associate (included in share of results of an associate)	**–**	159
Reversal of allowance for doubtful debts	**–**	(25)

9. TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(restated)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,601**	4,478
The People's Republic of China ("PRC") Enterprise Income Tax	**–**	1,308
	7,601	5,786
(Over)underprovision in prior years		
Hong Kong	**(104)**	(107)
PRC Enterprise Income Tax	**(88)**	1,154
	(192)	1,047
Deferred tax (note 31)		
Current year	**620**	697
Tax attributable to the Company and its subsidiaries	**8,029**	7,530

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

Taxation arising in PRC is calculated at the rates prevailing in PRC.

Pursuant to the relevant laws and regulations in PRC, the subsidiaries established in PRC are entitled to full exemption from PRC Enterprise Income Tax and the local income tax for the first two years commencing from their first profit-making year of operation and thereafter will be entitled to full exemption from the local income tax and a 50% relief from PRC Enterprise Income Tax for the following three years ("Tax Holiday").

A subsidiary is engaged in typical processing arrangement with a PRC processing factory during the year. As 50% of its assessable profits were attributable to its manufacturing operation in PRC, the subsidiary filed Hong Kong Profits Tax at 50:50 basis. Accordingly, 50% of its assessable profits were offshore in nature and non-taxable.

9. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	53,470	48,395
Tax at Hong Kong Profits Tax rate of 17.5%	9,357	8,469
Tax effect of share of results of an associate	508	7
Tax effect of expenses not deductible for tax purpose	1,798	25
Tax effect of income not taxable for tax purpose	(147)	(402)
(Over)underprovision in prior years	(192)	1,047
Utilisation of deferred tax assets previously not recognised	–	(203)
Tax effect of deferred tax assets not recognised	19	17
Tax effect of tax losses not recognised	82	–
Effect of tax relief granted to a subsidiary	(3,838)	(1,905)
Effect of different tax rates of subsidiaries operating in PRC	–	520
Others	442	(45)
Tax charge for the year	8,029	7,530

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

	Cheung Wah Keung HK$'000	Ip Wai Cheong, Ernest HK$'000	Wang Dong HK$'000	Feng Tian HK$'000	Goh Gen Cheung HK$'000	Lai Ming, Joseph HK$'000	Lam King Sun, Frankie HK$'000	Total HK$'000
2005								
Fees	–	–	–	–	123	123	123	369
Other emoluments								
Salaries and other benefits	1,625	1,145	197	264	–	–	–	3,231
Bonus	–	–	–	–	–	–	–	–
Retirement benefit scheme contributions	12	12	–	29	–	–	–	53
Share-based payments	–	1,919	–	–	–	–	–	1,919
	1,637	3,076	197	293	123	123	123	5,572

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Cheung Wah Keung	Ip Wai Cheong, Ernest	Wang Dong	Feng Tian	Goh Gen Cheung	Lai Ming, Joseph	Lam King Sun, Frankie	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004								
Fees	–	–	–	–	–	–	–	–
Other emoluments								
Salaries and other benefits	1,506	88	102	265	–	–	–	1,961
Bonus	119	8	–	15	–	–	–	142
Retirement benefit scheme contributions	12	1	–	11	–	–	–	24
	1,637	97	102	291	–	–	–	2,127

(b) Employees

The five highest paid individuals of the Group for the year included two (2004: one) executive directors of the Company, details of which are set out above. The emoluments of the remaining three (2004: four) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**2,231**	1,809
Bonus	**–**	106
Retirement benefits scheme contributions	**33**	48
	2,264	1,963

The emoluments of each of the three (2004: four) individuals in the Group during the year were below HK$1,000,000.

During the year, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

11. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Dividends declared by a subsidiary to its then shareholders prior to the Group Reorganisation	–	25,000
Interim dividend declared of HK2.5 cents per share	7,500	–
	7,500	25,000

The final dividend of HK 2.8 cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting for the year ended 31st December, 2005.

12. 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:

	2005 HK$'000	2004 HK$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	45,432	40,315

	2005 '000	2004 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	259,932	225,000
Effect of dilutive potential ordinary shares:		
Share options	2,083	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	262,015	225,000

The calculation of basic earnings per share for 2004 is assuming that 225,000,000 shares of the Company had been in issue throughout 2004.

12. EARNINGS PER SHARE *(Continued)*

Impact of changes in accounting policies

Changes in Group's accounting policies during the year are described in details in note 2. To the extent that changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005	2004	**2005**	2004
	HK dollar	*HK dollar*	***HK dollar***	*HK dollar*
Figures before changes in accounting policies	**0.18**	0.18	**0.18**	N/A
Effect on changes in accounting policies	**(0.01)**	–	**(0.01)**	N/A
Figures after changes in accounting policies	**0.17**	0.18	**0.17**	N/A

13. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	2,518
Revaluation increase	1,682
At 31st December, 2004	4,200
Disposals	(4,200)
At 31st December, 2005	**–**

The carrying amount of investment properties at 31st December, 2004 comprised properties held under medium-term lease situated in Hong Kong.

The investment properties of the Group were revalued at 31st December, 2004 on an open market value basis by Vigers Appraisal & Consulting Limited, an independent property valuer. The investment properties of the Group were disposed of during the year.

At 31st December, 2004, the investment properties had been pledged to secure banking facilities granted to the Group.

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Moulds	Furniture, fixtures and office equipment	Leasehold improvement	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1st January, 2004	55,129	2,503	11,110	6,512	2,675	77,929
Exchange realignment	27	–	18	–	12	57
Additions	9,239	449	3,117	7,601	245	20,651
Disposals	(2,680)	(2,439)	(1,098)	(1,372)	(219)	(7,808)
At 31st December, 2004	61,715	513	13,147	12,741	2,713	90,829
Additions	12,300	–	4,388	2,864	–	19,552
Disposals	(392)	–	(93)	–	–	(485)
At 31st December, 2005	**73,623**	**513**	**17,442**	**15,605**	**2,713**	**109,896**
DEPRECIATION						
At 1st January, 2004	21,696	2,474	6,445	2,562	1,433	34,610
Exchange realignment	15	–	10	–	9	34
Provided for the year	6,498	84	1,910	1,409	360	10,261
Eliminated on disposals	(1,185)	(2,439)	(1,033)	(552)	–	(5,209)
At 31st December, 2004	27,024	119	7,332	3,419	1,802	39,696
Provided for the year	7,636	157	2,707	2,650	224	13,374
Eliminated on disposals	(184)	–	(75)	–	–	(259)
At 31st December, 2005	**34,476**	**276**	**9,964**	**6,069**	**2,026**	**52,811**
CARRYING VALUES						
At 31st December, 2005	**39,147**	**237**	**7,478**	**9,536**	**687**	**57,085**
At 31st December, 2004	34,691	394	5,815	9,322	911	51,133

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10% – 20%
Moulds	$33^{1}/_{3}$%
Furniture, fixtures and office equipment	20% – 25%
Leasehold improvements	20%
Motor vehicles	20% – 25%

The carrying value of plant and machinery of HK$39,488,000 (2004: HK$34,691,000) includes an amount of HK$3,490,000 (2004: HK$7,916,000) in respect of assets held under finance leases.

15. GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 1st January, 2005	392
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(322)
At 31st December, 2005	**70**
AMORTISATION	
At 1st January, 2004	191
Provided for the year	131
At 1st January, 2005	322
Elimination of accumulated amortisation upon the application of HKFRS 3	(322)
At 31st December, 2005	**–**
IMPAIRMENT	
At 1st January, 2004 and 1st January, 2005	–
Impairment loss recognised for the year	70
At 31st December, 2005	**70**
CARRYING VALUES	
At 31st December, 2005	**–**
At 31st December, 2004	70

Until 31st December, 2004, goodwill had been amortised over its estimated useful life of three years.

16. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1st January, 2004 and 31st December, 2004	3,588
RELEASED TO INCOME	
At 1st January, 2004	(486)
Released in the year	(1,196)
At 31st December, 2004	1,906
Derecognised upon the application of HKFRS 3	(1,906)
At 1st January, 2005	–

As explained in note 2, all negative goodwill arising on acquisition prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

Until 31st December, 2004, negative goodwill was released to income on a straight-line basis of three years.

17. IMPAIRMENT ON GOODWILL

During the year ended 31st December, 2005, the Group recognised an impairment loss of HK$70,000 in relation to goodwill arising on acquisition of Tai Sing Industrial Company Limited due to the uncertainty about the market conditions.

The recoverable amount of the goodwill has been determined on the basis of value in use calculation and are based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management at a discount rate of 10%.

18. INVESTMENT IN AN ASSOCIATE

	2005	2004
	HK$'000	*HK$'000*
Cost of investment in an unlisted associate	**3,860**	3,860
Share of post-acquisition profits and reserves	**2,014**	4,749
	5,874	8,609

Details of the associate of the Group as at 31st December, 2005 are as follows:

Name of associate	**Form of business structure**	**Place of registration**	**Proportion of registered capital held indirectly by the Company**	**Principal activities**
Guangzhou Prosonic-Guoguang Speaker System Co. Ltd. ("GZ Prosonic") 廣州普笙音箱廠有限公司	Sino-foreign equity joint venture	PRC	20%	Manufacture of wooden speakers box, home theatre and audio related products

The summarised financial information in respect of the Group's associate which is accounted for using the equity method is set out below:

	2005	2004
	HK$'000	*HK$'000*
Total assets	**59,827**	90,996
Total liabilities	**(30,459)**	(47,953)
Net assets	**29,368**	43,043
Group's share of net assets of an associate	**5,874**	8,609
Turnover	**150,464**	235,834
Loss for the year	**(14,503)**	(190)
Group's share of results of an associate for the year	**(2,900)**	(38)

19. CLUB MEMBERSHIP

The club membership represents entrance fees paid to golf clubs held on a long-term basis. The directors of the Company are of the opinion that the underlying values of the club membership are at least equal to their costs.

20. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
At costs:		
Raw materials	**100,756**	26,597
Work in progress	**38,632**	1,722
Finished goods	**34,104**	16,854
	173,492	45,173

21. TRADE DEBTORS, DEPOSITS AND PREPAYMENTS

The Group normally allows an average credit period of 30 days to 75 days (2004: 30 days to 90 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with Group.

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

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**178,353**	55,093
31 to 60 days	**104,817**	47,181
61 to 90 days	**23,275**	13,587
91 to 120 days	**1,961**	2,016
Over 120 days	**5,458**	10,163
	313,864	128,040
Deposits and prepayments	**21,397**	8,292
	335,261	136,332

22. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company, 廣州慧得電子有限公司, was unsecured, interest free and was fully settled during the year.

90% equity interest of 廣州慧得電子有限公司 are held by GZ Prosonic, an associate of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

23. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$6,761,000 (2004: HK$1,752,000) have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The remaining deposits amounting to HK$3,116,000 (2004: HK$301,000) have been pledged to secure long-term borrowings and therefore classified as non-current assets.

The deposits carrying fixed interest rate ranging from 1.1% to 1.8% (2004: 0.04% to 0.5%). The pledged bank deposits will be released upon settlement of relevant bank borrowings. The fair value of bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

24. BANK BALANCES AND CASH

Bank balances and cash comprise certain short-term bank deposits at prevailing market interest rates and certain short-term bank deposits carried fixed interest rates ranging from 2.1% to 4.3% (2004: 0.5% to 1.1%).

25. TRADE CREDITORS AND ACCRUED CHARGES/BILLS PAYABLE

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

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**121,523**	33,963
31 to 60 days	**89,356**	25,576
61 to 90 days	**53,316**	13,068
91 to 120 days	**38,733**	18,974
Over 120 days	**26,380**	10,807
	329,308	102,388
Accrued charges	**24,954**	16,734
	354,262	119,122

At the balance sheet date, bills payable, with maturity date of 60 days, aged within 31 to 60 days (2004: 31 to 60 days).

26. AMOUNT DUE TO A RELATED COMPANY

The amount is owed to Dongguan Guanman Acoustic Co. Ltd., a company in which Mr. Ip Wai Cheong, Ernest, a director and shareholder of the Company, has beneficial interest. The amount is unsecured, interest free and repayable within one year.

The following is an aged analysis of the amount due to a related company at the respective balance sheet dates:

	2005 HK$'000	2004 HK$'000
0 to 30 days	10,231	–
31 to 60 days	5,948	–
	16,179	–

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Amounts payable under finance leases				
Within one year	1,388	2,648	1,345	2,537
In more than one year but not more than two years	109	1,363	108	1,339
In more than two years but not more than three years	–	111	–	109
	1,497	4,122	1,453	3,985
Less: future finance charges	(44)	(137)	–	–
Present value of lease obligations	1,453	3,985	1,453	3,985
Less: amount due for settlement within one year shown under current liabilities			(1,345)	(2,537)
Amount due for settlement after one year			108	1,448

The Group has leased certain of its plant and machinery under finance leases. The average lease term is 3 years (2004: 3 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1.9% to 4.9% (2004: 2.0% to 5.0%).

27. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to their carrying amount.

28. BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans	45,957	31,205
Analysed as:		
Secured	36,957	21,687
Unsecured	9,000	9,518
	45,957	31,205

	2005 HK$'000	2004 HK$'000
Carrying amount repayable:		
On demand or within one year	41,503	23,516
More than one year, but not exceeding two years	4,454	2,710
More than two years, but not exceeding five years	–	4,979
	45,957	31,205
Less: Amount due within one year shown under current liabilities	(41,503)	(23,516)
Amount due after one year	4,454	7,689

Bank borrowings comprise:

	Effective interest rate	Carrying amount 2005 HK$'000	Carrying amount 2004 HK$'000
Floating-rate borrowings:			
Secured HKD bank loan at HIBOR + 1.925%	7.675%	19,600	–
Secured HKD bank loan at cost of fund + 2%	6.32%	10,468	9,770
Secured HKD bank loan at Prime – 1%	6.75%	6,889	10,417
Secured HKD bank loan at Prime + 0.75%	8.50%	–	1,500
Unsecured HKD bank loan at Prime – 2%	5.75%	9,000	9,518
		45,957	31,205

29. 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 31st December, 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
Issue of shares upon the placing and public offer	75,000,000	750
At 31st December, 2005	300,000,000	3,000

The following changes in the share capital of the Company took place during the period from 26th January, 2005 (date of incorporation) to 31st December, 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 nominal value of the entire issued share capital of Shinhint Industries Limited and the aggregate nominal 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 a director, 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.

29. SHARE CAPITAL *(Continued)*

(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.

(g) On 14th July, 2005, 75,000,000 new ordinary shares of the Company of HK$0.01 each were issued at HK$0.8 per share for cash through an initial public offering by way of placing and public offer.

The share capital at 1st January, 2004 and 31st December, 2004 shown in the consolidated balance sheet represented 5,000,000 shares of HK$1 each in the share capital of Shinhint Industries Limited prior to the Group Reorganisation.

30. SHARE OPTION SCHEME

(a) Pursuant to the service agreement between the Company and a director of the Company dated 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 (the "Pre-IPO Share Option") was granted to the director. The Pre-IPO Share Option, which serves as an incentive for the director who has substantial management and manufacturing experience in the production of audio speaker system and car speaker system, shall be exercised during the period from 14th January, 2006 to 31st December, 2007 and shall not be transferable.

At 31st December, 2005, the number of shares to be issued upon subscription of the Pre-IPO Share Option which remained outstanding was 3,397,500, representing 1.13% of the shares of the Company in issue at that date.

Details of the share options granted under the Pre-IPO Share Option during the year to subscribe for the shares in the Company are as follows:

2005

Granted to	Date of grant	Vesting period	Exercisable period (both dates inclusive)	Exercise price	Number of share options at 1st January, 2005	Granted during the year	Number of share options at 31st December, 2005
				HK$			
Director	11.5.2005	11.5.2005 –13.1.2006	14.1.2006–31.12.2007	0.01	–	3,397,500	3,397,500
Exercisable at the end of the year							–

The estimated fair value of the Pre-IPO Share Option at the date of grant is HK$2,025,000.

30. SHARE OPTION SCHEME *(Continued)*

The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005
Weighted average share price	**HK$0.70**
Exercise price	**HK$0.01**
Expected volatility	**26.1%**
Expected life	**0.5 year**
Risk-free rate	**3.8%**
Expected dividend yield	**10%**

Expected volatility was determined with reference to the volatility of share price for other companies, with shares listed on the SEHK, in the same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$1,919,000 for the year ended 31st December, 2005 in relation to share options granted by the Company.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(b) The Company's share option scheme adopted by the shareholders pursuant to a resolution passed on 25th June, 2005 (the "Scheme") is for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 13th July, 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, or any persons who have contributed or will contribute to the Group, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

30. SHARE OPTION SCHEME *(Continued)*

Options granted must be taken up within 28 days from the date of grant, upon payment of the consideration specified in the option agreement. An option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the SEHK for the five business days immediately preceding the date of grant, and the nominal value.

During the year ended 31st December, 2005, no options have been granted under the Scheme.

31. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movements thereon for the year:

	Accelerated tax depreciation	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2004	2,345	(60)	2,285
Exchange realignment	–	(1)	(1)
Charge to income for the year	636	61	697
At 31st December, 2004	2,981	–	2,981
Charge to income for the year	620	–	620
At 31st December, 2005	**3,601**	**–**	**3,601**

At the balance sheet date, the Group has unused tax losses of HK$466,000 (2004: nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$209,000 (2004: HK$99,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$1,217,000.

33. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**94**	897
In the second to fifth years inclusive	**–**	141
	94	1,038

Operating lease payments represent rentals payable by the Group for certain of its office properties.

Leases are negotiated for an average term of one to two years and rentals are fixed throughout the lease term.

34. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**2,797**	700

35. EMPLOYEE RETIREMENT BENEFITS

Prior to 1st December, 2000, the Group operated a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance ("ORSO Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there were employees who left the ORSO Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect to MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

Employees who were members of the ORSO Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

Employees of the subsidiaries in PRC are members of pension schemes operated by PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

36. RELATED PARTY TRANSACTIONS

Apart from the current accounts with related companies as stated in notes 22 and 26 above, the Group entered into the following transactions with related companies during the year:

Name of related company	Nature of transactions	2005 HK$'000	2004 HK$'000
Dongguan Guanman Acoustic Co. Ltd.	Trade purchases	87,483	–
GZ Prosonic	Trade purchases	–	321
廣州慧得電子有限公司	Trade sales	–	4
Victory Stand Industries Limited (“Victory Stand”) (Note)	Trade sales	–	35,759
	Trade purchases	–	2,595
	Subcontracting income received	–	1,191

Note: Mr. Cheung Wah Keung, the director of the Company, was also the director and shareholder of Victory Stand. On 30th December, 2004, Mr. Cheung Wah Keung resigned as the director of Victory Stand and disposed of all his equity interest in Victory Stand. Victory Stand is no longer a related company since 30th December, 2004.

Certain directors had provided unlimited personal guarantees to banks for banking facilities granted to the Group at nil consideration. These personal guarantees were released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the SEHK.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	6,948	3,849
Bonus	–	297
Retirement benefit scheme contributions	132	76
Share-based payment	1,919	–
	8,999	4,222

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005
	HK$'000
Investment in a subsidiary	–
Amounts due from subsidiaries	156,405
Dividend receivable	17,500
Bank balances and cash	20,599
Other current assets	238
Amounts due to subsidiaries	(250)
Other current liabilities	(464)
	194,028
Share capital	3,000
Reserves	191,028
	194,028

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities
Shinhint Industries Limited	Incorporated	Hong Kong	HK$5,000,000	100%	Investment holding and trading of components of electronic appliances
Rich Forever Inc.	Incorporated	British Virgin Islands ("BVI")	US$1	100%	Investment holding
Superior Gain Corporation	Incorporated	BVI	US$1	100%	Investment holding
Hot Track Limited	Incorporated	BVI	US$1	100%	Investment holding
Tai Sing Industrial Company Limited	Incorporated	Hong Kong	US$1	100%	Manufacturing of moulds, headphones and speakers related components
A-Kei Cable Limited	Incorporated	Hong Kong	HK$10,000	100%	Manufacturing of cable products for electronic appliances

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities
Crown Million Industries (International) Limited	Incorporated	Hong Kong	HK$10,000	100%	Trading of home theatre and automobiles speakers system
Shinhint Electronics (Dongguan) Company Limited ("Shinhint DG") 成謙電子(東莞)有限公司	Wholly foreign-owned enterprise	PRC	HK$10,000,000 (paid up HK$1,500,000) (Note 2)	100%	Not yet commence business
Shinhint Industrial Holdings Limited ("Shinhint Industrial")	Incorporated	BVI	US$1	100%	Investment holding
Shinhint Technology Company Limited	Incorporated	Hong Kong	HK$10,000	100%	Net yet commence business

Notes:

1. Other than Shinhint Industrial, all other subsidiaries are indirectly held by the Company.

2. The amount of unpaid capital will be contributed before 8th May, 2006 in accordance with the articles of association of Shinhint DG.

None of the subsidiary has debt securities at the end of the year.

Financial Summary

	Year ended 31st December,			
	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS				
Turnover	513,780	620,011	529,946	**1,016,198**
Profit for the year	25,983	48,772	40,865	**45,441**
Attributable to:				
Equity holders of the parent	19,718	43,936	40,315	**45,432**
Minority interests	6,265	4,836	550	**9**
	25,983	48,772	40,865	**45,441**

	At 31st December,			
	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES				
Total assets	311,884	333,979	297,398	**654,303**
Total liabilities	(214,484)	(231,236)	(188,721)	**(429,494)**
Shareholders' funds	97,400	102,743	108,677	**224,809**

Notes:

1. The Company was incorporated in the Cayman Islands on 26th January, 2005 and became the holding company of the Group with effect from 11th May, 2005 upon the completion of the Group Reorganisation as set out in the Company's prospectus dated 30th June, 2005.

2. The results of the Group for the three years ended 31st December, 2004 and the balance sheets of the Group at 31st December, 2002, 31st December, 2003 and 31st December, 2004 have been prepared on a merger basis and are extracted from the Company's prospectus dated 30th June, 2005.

3. The results of the Group for the year ended 31st December, 2005 and the balance sheet of the Group at 31st December, 2005 have been extracted from the audited consolidated financial statements of the Group as set out on pages 28 and 73 respectively.