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## 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)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

The board of directors (the “Board”) of Shinhint Acoustic Link Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2011 together with the comparative figures for the corresponding period in 2010.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2011

	NOTES	Six months ended 30th June,	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	3	414,550	505,144
Cost of sales		<u>(395,076)</u>	<u>(443,728)</u>
Gross profit		19,474	61,416
Other income		733	800
Selling and distribution costs		(6,005)	(9,301)
Administrative expenses		(39,335)	(38,968)
Research and development expenses		(12,428)	(7,824)
Other gains and losses		389	399
Finance costs		<u>(4)</u>	<u>(4)</u>
(Loss) profit before taxation	5	(37,176)	6,518
Taxation	6	<u>305</u>	<u>(1,346)</u>
(Loss) profit for the period		<u>(36,871)</u>	<u>5,172</u>
		HK cents	HK cents
(Loss) earnings per share	8		
- Basic		<u>(11.47)</u>	<u>1.61</u>
- Diluted		<u>(11.47)</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30th June, 2011*

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
(Loss) profit for the period	<u>(36,871)</u>	<u>5,172</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	<u>558</u>	<u>280</u>
Other comprehensive income for the period	<u>558</u>	<u>280</u>
Total comprehensive (expense) income for the period	<u><u>(36,313)</u></u>	<u><u>5,452</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2011

	<b>30th June, 2011 HK\$'000 (Unaudited)</b>	31st December, 2010 HK\$'000 (Audited)
<b>Non-current assets</b>		
Property, plant and equipment	72,347	60,645
Intangible assets	978	978
Rental deposits	976	961
Deposits for acquisition of property, plant and equipment	<u>2,924</u>	<u>6,664</u>
	<u>77,225</u>	<u>69,248</u>
<b>Current assets</b>		
Inventories	112,870	116,040
Trade debtors, deposits and prepayments	258,954	267,039
Tax recoverable	2,074	2,167
Bank balances and cash	<u>119,458</u>	<u>135,560</u>
	<u>493,356</u>	<u>520,806</u>
<b>Current liabilities</b>		
Trade creditors and accrued charges	258,722	234,507
Tax liabilities	966	871
Bank borrowings - due within one year	<u>20,000</u>	<u>21,000</u>
	<u>279,688</u>	<u>256,378</u>
<b>Net current assets</b>	<u>213,668</u>	<u>264,428</u>
<b>Total assets less current liabilities</b>	<u>290,893</u>	<u>333,676</u>
<b>Capital and reserves</b>		
Share capital	3,215	3,215
Reserves	<u>285,125</u>	<u>327,288</u>
<b>Total equity</b>	<u>288,340</u>	<u>330,503</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities	<u>2,553</u>	<u>3,173</u>
	<u>2,553</u>	<u>3,173</u>
<b>Total equity and liabilities</b>	<u>290,893</u>	<u>333,676</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2011

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30th June, 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning on 1st January, 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosure
HKAS 32 (Amendments)	Classification of Right Issues

The adoption of the above new and revised standards, amendments and interpretations in the current period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

The Group has not early applied the following new or revised standards or amendments that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2011

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2013

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2012

The directors of the Company anticipate that the application of these new or revised standards or amendments will have no material financial impact on the results and financial position of the Group.

### 3. REVENUE

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

4. SEGMENTAL INFORMATION

The analysis of the Group's revenue and results by reportable segment for the period under review is set out below:

Six months ended 30th June, 2011

	Communication peripheral HK\$'000	Portable audio HK\$'000	Desktop audio HK\$'000	Speaker drivers HK\$'000	Others HK\$'000	Total HK\$'000
<b>REVENUE</b>						
External sales	<u>53,181</u>	<u>128,133</u>	<u>49,360</u>	<u>150,232</u>	<u>33,644</u>	<u>414,550</u>
<b>RESULT</b>						
Segment result	<u>(542)</u>	<u>(15,437)</u>	<u>(6,933)</u>	<u>(7,596)</u>	<u>(5,963)</u>	<u>(36,471)</u>
Unallocated other income						733
Unallocated expenses						(1,434)
Finance costs						<u>(4)</u>
Loss before taxation						<u>(37,176)</u>
Taxation						<u>305</u>
Loss for the period						<u><u>(36,871)</u></u>

Six months ended 30th June, 2010

	Communication peripheral HK\$'000	Portable audio HK\$'000	Desktop audio HK\$'000	Speaker drivers HK\$'000	Others HK\$'000	Total HK\$'000
<b>REVENUE</b>						
External sales	<u>85,888</u>	<u>201,058</u>	<u>81,019</u>	<u>120,599</u>	<u>16,580</u>	<u>505,144</u>
<b>RESULT</b>						
Segment result	<u>3,577</u>	<u>170</u>	<u>(1,179)</u>	<u>4,362</u>	<u>150</u>	7,080
Unallocated other income						800
Unallocated expenses						(1,358)
Finance costs						<u>(4)</u>
Profit before taxation						6,518
Taxation						<u>(1,346)</u>
Profit for the period						<u><u>5,172</u></u>

Segment result represents the profit (loss) earned by each segment without allocation of finance costs, unallocated expenses, other income and taxation. This is the measure reported to the Group's chief operating decision maker for the purpose of resource allocation and performance assessment.

5. (LOSS) PROFIT BEFORE TAXATION

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss) profit before taxation has been arrived at after charging (crediting):		
Depreciation	<b>8,761</b>	8,830
Loss on disposal of property, plant and equipment (included in other gains and losses)	<b>15</b>	315
Write down of inventories (included in cost of sales)	<b>5,552</b>	1,248
Share-based payment expense	<b>581</b>	-
Interest income	<u><b>(546)</b></u>	<u>(254)</u>

6. TAXATION

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current tax for the period		
Hong Kong	244	827
PRC Enterprise Income Tax	71	590
	<u>315</u>	<u>1,417</u>
Deferred tax for the period	<u>(620)</u>	<u>(71)</u>
	<u>(305)</u>	<u>1,346</u>

7. DIVIDENDS

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend paid in respect of dividend declared for 2010 of HK2.0 cents (2010: HK4.3 cents in respect of dividend declared for 2009) per share	6,431	13,826
Special dividend paid in respect of dividend declared for 2010 of nil (2010: HK1.8 cents in respect of dividend declared for 2009) per share	-	5,788
	<u>-</u>	<u>5,788</u>
	<u>6,431</u>	<u>19,614</u>

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2011 (six months ended 30th June, 2010: HK1.2 cents per share).

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>(Loss) earnings</b>		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share		
(Loss) profit for the period	<u>(36,871)</u>	<u>5,172</u>
	<b>'000</b>	<b>'000</b>
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	<u>321,545</u>	<u>321,545</u>

The computation of diluted loss per share for the current period does not assume the exercise of the Company's options because it will reduce the amount of loss per share. No diluted earnings per share is presented for the six months ended 30th June, 2010 because there was no potential ordinary shares outstanding throughout the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The period under review saw the toughest ever macro environment the Group has ever experienced since its inception. On the sales front, the depressing inertia of the global economy has continued and it gave no help to the demands from the major markets of the Group. On the operating side, the manufacturing costs kept on surging in the People's Republic of China (the "PRC") and the material costs, primarily led by the roaring price increase of the rare earth, were vastly unfavorable to our manufacturing sector. For the six months ended 30th June, 2011, the Group reported a turnover of HK\$414,550,000, which represented a decrease of 18% over the corresponding period of last year (2010 Interim: HK\$505,144,000). While the Group was trying very hard to pass on the cost increase to its customers, nonetheless, the poor global economy has caused severe resistance along the whole distribution chain and only part of the increased cost transfer can be realized.

The gross profit of the Group decreased by 68% to HK\$19,474,000 for the period under review (2010 Interim: HK\$61,416,000). The decrease in gross profit was mainly caused by, apart from the reduction in turnover, the consecutive years of mandatory labor cost increase in the PRC, Renminbi appreciation, material cost increase and higher absorption rate due to lower turnover. In May 2010 and March 2011, merely 10 months interval, the mandatory labor cost increase in Dongguan City, where the Group's factories are located, was both over 19%. In the last two years, Renminbi continued to appreciate substantially. On the material side, while most commodities were seeing substantial cost uptrend, the most terrifying one was the price increase of the rare earth, which provides neodymium, the critical material for making high performance speakers for our products. With all these unfavorable impacts, the Group has reported a loss for the period of HK\$36,871,000 (2010 Interim: profit for the period of HK\$5,172,000).

Despite of the overall unsatisfactory performance, the speaker drivers business still recorded a substantial increase in turnover reaching HK\$150,232,000, representing a year-on-year growth of 25% (2010 Interim: HK\$120,599,000). The growth was mainly attributable to the strong demand from the automotive market. For the television market, the turnover has declined and the main reason was that most television manufacturers were forced to adopt lower performance speakers for avoiding cost increase induced by the rare earth price surge.

The other three segments, communication peripheral, portable audio and desktop audio, were all recording similar level of sales decline in the review period. The communication peripheral segment registered a turnover of HK\$53,181,000 (2010 Interim: HK\$85,888,000). The turnover of the portable audio segment was HK\$128,133,000 (2010 Interim: HK\$201,058,000). The desktop audio segment, that the Group has strategically allocated fewer resources into, has recorded a turnover of HK\$49,360,000 (2010 Interim:

HK\$81,019,000). The respective rate of turnover reduction was 38%, 36% and 39%. It was mostly reflecting the overall unfavorable market situation.

## **Financial Review**

### *Liquidity and Financial Resources*

As at 30th June, 2011, the Group's net current assets were HK\$213,668,000 (31st December, 2010: HK\$264,428,000). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.8 as compared to 2.0 at last year end.

As at 30th June, 2011, the Group maintained a healthy cash level with net cash and cash equivalents of HK\$99,458,000 (31st December, 2010: HK\$114,560,000) after deducting bank borrowings of HK\$20,000,000 (31st December, 2010: HK\$21,000,000). The Group had unutilized banking facilities of HK\$55,000,000 as at 30th June, 2011 (31st December, 2010: HK\$74,000,000).

It is the policy of the Group to adopt a prudent financial management strategy and maintain a high level of liquidity and banking facilities to meet the funding requirement of the Group's operations and investment opportunity.

### *Treasury Policies*

The Group does not engage in any leveraged or derivative products. Consistent with this prudent approach to financial risk management, the Group has continued to work towards maintaining a comfortable gearing position. Since the Group's sales and raw material purchases are conducted in United States dollars and Hong Kong dollars, the Group believes that it will have sufficient foreign exchange reserves to match necessary requirements. Part of the manufacturing overhead is denominated in Renminbi, to mitigate the impact of exchange rate fluctuations, the Group will closely assess and monitor the movement of the Renminbi exchange rate. The Group will consider hedging significant foreign currency exposure should the need arise.

### *Contingent Liabilities*

As at 30th June, 2011, the Group had no material contingent liabilities.

### *Human Resources*

As at 30th June, 2011, the Group employed a total of approximately 4,900 employees (30th June, 2010: 5,400) in Hong Kong and the PRC collectively. Staff costs (excluding directors' emoluments) amounted to approximately HK\$81,731,000 (30th June, 2010: HK\$71,435,000). The Group recruits and selects applicants for employment on the basis of their qualifications and suitability for the position. It is the Group's policy to recruit the most capable person available for each position. The Group continues to offer competitive remuneration package and bonuses to eligible staff, based on the performance of the Group and the individual employee.



## **Prospects**

The economy of the United States of America and Europe has not seen improvements since the financial crisis in 2008. In the PRC, continuous operating cost increase in the coming few years has been expected by almost all manufacturers. We believe that the macro environment will continue to be challenging. Given these facts, however, the Group believes that it is indeed a consolidation process for a lot of industries, including the acoustic industry that the Group is competing in. The industry shall gain a new dynamic along the supply chain and the Group shall be benefitted during the process. Consumers will continue to buy good quality acoustic products for music entertainment and communications. And the global economic cycle shall improve at a certain point. Setting the feet on the ground, the Group will continue on with its set strategies. We are diversifying the product portfolio and continuing to expand its customer base for broadening the income stream and therefore increasing the total turnover. We shall also invest more resources in the research and development of products with unique features and innovative ideas for improving the profitability. Expecting an on-going growing trend in operating costs, we shall continue our effort to pass on such cost increase to our customers. Our commitment to generating long term value to its employees, customers and shareholders remain intact and firm.

## **Interim Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2011 (2010 interim dividend: HK1.2 cents per share).

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance Practices**

The Company has, throughout the six months ended 30th June, 2011, applied and complied with the principles in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

### **Compliance with the Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. On specific enquiry made, all the directors of the Company have confirmed that they have fully complied with the required standards set out in the Model Code throughout the six months ended 30th June, 2011.

## **Audit Committee**

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The Audit Committee consists of three Independent Non-Executive Directors, namely 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.

The interim results of the Group for the six months ended 30th June, 2011 have not been audited, but have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu. The Audit Committee has also reviewed with senior management of the Group, the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2011.

## **Purchase, Sale or Redemption of Shares**

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

## **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our shareholders and investors for their patronage.

By order of the Board  
**Cheung Wah Keung**  
*Chairman*

Hong Kong, 26th August, 2011

*As at the date of this announcement, the Company has two Executive Directors, namely Mr. Cheung Wah Keung (Chairman) and Mr. Wong Sau Lik, Weekey Peter and three Independent Non-Executive Directors, namely Mr. Lai Ming, Joseph, Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung.*