



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8226)

Third Quarterly Report For the nine months period ended 30th September 2008

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This report, for which the Directors of Sonavox International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The board of directors (the “Board”) of Sonavox International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively “Sonavox” or the “Group”) for the three months and nine months ended 30th September 2008, together with the comparative figures for the corresponding periods in 2007 were as follows:

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	102,588	72,451	303,093	268,589
Cost of sales		(82,771)	(53,957)	(246,400)	(218,760)
Gross profit		19,817	18,494	56,693	49,829
Other gains – net	2	6,208	315	6,959	750
Selling and marketing costs		(4,461)	(4,278)	(12,374)	(11,447)
Administrative expenses		(16,270)	(12,283)	(42,945)	(32,270)
Finance costs		(2,675)	(1,906)	(7,570)	(5,350)
Profit before income tax	3	2,619	342	763	1,512
Income tax	4	(1,258)	(287)	(330)	(977)
Profit for the period		1,361	55	433	535
Attributable to:					
Equity holders of the Company		(1,529)	(812)	(3,331)	(1,632)
Minority interests		2,890	867	3,764	2,167
		1,361	55	433	535
Loss per share	6				
– Basic		(0.471)	(0.250)	(1.025)	(0.502)
– Diluted		N/A	(0.249)	N/A	(0.500)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the Company										
	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Cumulative translation adjustment <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2008 (audited)	3,251	27,682	2,598	7,250	2,441	1,948	15,235	27,735	88,140	70,706	158,846
Profit/(loss) for the nine months ended 30th September 2008	-	-	-	-	-	-	-	(3,331)	(3,331)	3,764	433
Translation adjustments	-	-	-	-	-	-	7,958	-	7,958	-	7,958
At 30th September 2008 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>7,250</u>	<u>2,441</u>	<u>1,948</u>	<u>23,193</u>	<u>24,404</u>	<u>92,767</u>	<u>74,470</u>	<u>167,237</u>
At 1st January 2007 (audited)	3,251	27,682	2,598	6,813	2,441	1,948	6,255	33,868	84,856	63,358	148,214
Profit/(loss) for the nine months ended 30th September 2007	-	-	-	-	-	-	-	(1,632)	(1,632)	2,167	535
Translation adjustments	-	-	-	-	-	-	7,691	-	7,691	-	7,691
At 30th September 2007 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>6,813</u>	<u>2,441</u>	<u>1,948</u>	<u>13,946</u>	<u>32,236</u>	<u>90,915</u>	<u>65,525</u>	<u>156,440</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. They have been prepared under historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities.

The principal accounting policies used in the unaudited condensed financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31st December 2007. The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

2. TURNOVER, REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sales of loudspeaker systems. Revenues recognised during the period is as follows:

	For the three months ended 30th September		For the nine months ended 30th September	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover				
Manufacture and sales of loudspeaker systems	102,588	72,451	303,093	268,589
Other gains – net				
Interest income	183	92	312	207
Government subsidy	–	150	572	150
Exchange gains, net	5,967	–	5,967	–
Others	58	73	108	393
	6,208	315	6,959	750
Total revenue	108,796	72,766	310,052	269,339

The Group is organised on a world wide basis with one business segment in Hong Kong, Mainland China, Japan, North America, European Union countries and other Asian countries. Accordingly, the Directors consider there are one business segment and six geographical segments.

For the nine months ended 30th September 2008							
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	Group HK\$'000
Turnover	4,965	117,825	16,218	110,641	35,138	18,306	303,093
Segment results	<u>(3,135)</u>	<u>3,137</u>	<u>486</u>	<u>1,189</u>	<u>384</u>	<u>(687)</u>	1,374
Other gains – net							6,959
Finance costs							<u>(7,570)</u>
Profit before income tax							763
Income tax							<u>(330)</u>
Profit for the period							433
Minority interests							<u>(3,764)</u>
Loss attributable to equity holders of the Company							<u><u>(3,331)</u></u>
For the nine months ended 30th September 2007							
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	Group HK\$'000
Turnover	4,897	72,320	12,956	140,524	14,313	23,579	268,589
Segment results	<u>(1,896)</u>	<u>2,196</u>	<u>393</u>	<u>4,267</u>	<u>435</u>	<u>717</u>	6,112
Other gains – net							750
Finance costs							<u>(5,350)</u>
Profit before income tax							1,512
Income tax							<u>(977)</u>
Profit for the period							535
Minority interests							<u>(2,167)</u>
Loss attributable to equity holders of the Company							<u><u>(1,632)</u></u>

3. PROFIT BEFORE INCOME TAX

The Group's profit before income tax has been arrived by charging:

	For the nine months ended 30th September	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation	15,795	9,579

4. INCOME TAX

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	For the three months ended 30th September		For the nine months ended 30th September	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current taxation	1,609	410	1,460	1,345
Deferred taxation	(351)	(123)	(1,130)	(368)
	1,258	287	330	977

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The Company's subsidiary established in the British Virgin Islands is incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of the British Virgin Islands income taxes.

The Company's subsidiary established in Canada, Sonavox Canada Inc. ("SCI") is subject to National and Ontario corporation income taxes at an aggregate rate of 34%.

Suzhou Shangsheng Electrics Co. Ltd. ("Shangsheng Electrics"), Suzhou Sonavox Acoustics Co. Ltd. ("Sonavox Acoustics"), Suzhou Shangsheng Technology Co. Ltd. ("Shangsheng Technology") and Suzhou Hesheng Industrial Co., Ltd. ("Suzhou Hesheng"), being foreign investment enterprises established in the Coastal Open Economic Region of Suzhou, Mainland China, are subject to preferential enterprise income tax ("EIT") rate of 27%, representing 24% state EIT rate and 3% local EIT rate, and are entitled to full exemption from EIT for two years starting from its first profit-making year to be followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Sonavox Acoustics, Shangsheng Technology and Suzhou Hesheng have been reporting tax loss since its establishment.

Shangsheng Electrics was exempted from Mainland China enterprise income tax up to 31st December 1997 and it is subject to EIT at a rate of 15% from 1st January 1998 to 31st December 2000. Pursuant to an approval from the local tax authority of Mainland China, Shangsheng Electrics continued to be entitled to 50% reduction in tax rate from 1st January 2001 to 31st December 2003, being qualified as a "new and high technology enterprise". The tax exemption and reduction period of Shangsheng Electrics expired in 2005. As Shangsheng Electrics is recognised as a "Technology-incentive and Labour-incentive Enterprise", it is currently subject to EIT of 15%.

No provision for Hong Kong profits tax has been made as there is no assessable profit (2007: Nil) for the subsidiaries operating in Hong Kong during the period ended 30th September 2008.

5. **DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the nine months ended 30th September 2008 (2007: Nil).

6. **LOSS PER SHARE**

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the three months ended 30th September		For the nine months ended 30th September	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	(1,529)	(812)	(3,331)	(1,632)
Weighted average number of ordinary shares in issue ('000)	325,090	325,090	325,090	325,090
Basic loss per share (HK cent per share)	<u>(0.471)</u>	<u>(0.250)</u>	<u>(1.025)</u>	<u>(0.502)</u>

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as the dilutive potential ordinary shares. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted loss per share for the three months and nine months ended 30th September 2008 has not been presented, as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the respective periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

According to the China Association of Automobile Manufacturers, sales of sedan cars in China during the nine months ended 30th September 2008 has gradually increased by about 10% compared with the same period last year. During the period under review, Group continued to be benefited from steady demand for automobiles in China and well developed relationship with overseas automakers. By strengthening its performance of main streams line of business of manufacture and sales of automobile loudspeaker systems, the Group has committed to grasp profitable growth opportunities and to improve its performance.

Senior management is aware of the importance of innovation and technology. During the review period, there were at least 4 new systems for docking type products have been developed by the Group's subsidiary in Canada and more than 2 types of amplifiers were developed for automakers that will fuel the Group's turnover for the year 2008.

Financial review

For the nine months ended 30th September 2008, the Group kept its steady performance, and achieved a turnover of approximately HK\$303.1 million (2007: HK\$268.6 million). The gross profit margin ratio for the nine months ended 30th September 2008 was about 18.7%, while it was about 18.6% in the previous period.

The Group recorded profit before income tax of approximately HK\$0.8 million for the nine months ended 30th September 2008 (2007: profit of approximately HK\$1.5 million). Increase in the Group's total expenses was mainly attributable to commencement of operations of non-wholly owned subsidiaries in China and Germany in 2007. Finance costs increased by 42% from approximately HK\$5.4 million in the same period last year to HK\$7.6 million in this period, as a result of additional bank loans obtained in China for production capabilities expansion during the period under review.

Business prospects

The Directors expect the year ahead to be challenging with recent global financial uncertainties caused by sub-prime mortgage related credit crisis in the United States. The Group was well prepared to face the coming challenges, and there is a high level of commitment from the management team of the Group to achieve ambitious targets in the coming years. Our focus will build on our experience and establishments of the past to implement a strategy for the next stage of development. The Group will stabilize the production cost, improve production efficiency, ensure quality consistency and reliability, as well as capture higher profit margins.

Liquidity, financial resources and treasury policies

During the nine months ended 30th September 2008, the Group's major business operations took place in China and Canada, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 30th September 2008, the Group had cash and bank deposits of approximately HK\$37,667,000 (31st December 2007: HK\$25,190,000). The Group's current ratio stood at 0.90 as at 30th September 2008 and 0.93 as at 31st December 2007. The increase in cash and bank deposits was primarily attributable to the increase in corporate borrowings during the period under review. The Group had bank overdrafts of approximately HK\$6,155,000 (31st December 2007: HK\$9,269,000) bearing interest rates at commercial prime lending rate plus 0.75% per annum and short-term bank loans of approximately HK\$92,427,000 (31st December 2007: HK\$ 66,912,000) bearing interest rates ranging from 4.65% to 6.55% per annum with repayment within a year.

The Group adopts conservative treasury policies in managing its cash and financial matters, with all the Group's treasury activities carried out in Canada, Mainland China and Hong Kong. Currently, cash and bank deposits are placed in interest-bearing bank accounts denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB"), U.S. dollars ("USD"), European dollars ("Euros") and Canadian dollars ("CAD"). The Group's liquidity and financial arrangements are reviewed regularly by the Board and senior management.

Capital commitments and contingent liabilities

As at 30th September 2008, the Group had capital commitment of approximately HK\$1,086,000 (31st December 2007: HK\$15,639,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK\$4,063,000 (31st December 2007: HK\$4,784,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established in 2006 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 30th September 2008, the Group had outstanding commitments of approximately US\$3,931,000 and US\$2,550,000 respectively for capital contribution to these two subsidiaries.

As at 30th September 2008, the Group did not have any significant contingent liabilities.

Material acquisition/disposals and significant investment

The Group had no material acquisition which would have been required to be disclosed under the GEM Listing Rules.

At present, the Group has no future plan for material disposal of significant investments.

Exposure on exchange rate fluctuation

Most of the Group's bank borrowings were denominated in RMB, CAD and USD, whilst receipts and expenditures of the Group were denominated in RMB, HKD, USD, Euros and CAD during the period. The Group is subject to foreign exchange exposure in RMB/CAD against USD and Euros. However, the Group was able to partially mitigate the foreign exchange impact by entering sale transactions with overseas customers denominated in RMB and entering purchase contracts with overseas suppliers in USD. The Directors and senior management will continue to monitor closely the exchange risks and hedging by forward contracts and applicable derivatives when necessary.

Banking facilities and pledge of assets

The Group had aggregate banking facilities of approximately HK\$143,660,000 for overdrafts and loan financing as at 30th September 2008. Unused bank facilities as at the same date amounted to approximately HK\$42,581,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group.

Number of employees

A breakdown of the number of employees of the Group by function as at 30th September 2008 and 31st December 2007 were set out below:

	As at 30 September 2008	As at 31 December 2007
Management and administration	87	69
Sales and marketing	53	43
Manufacturing and operations	1,301	1,612
Research and development	61	91
Quality assurance and quality control	136	150
Finance and accounting	13	14
	<u>1,651</u>	<u>1,979</u>

Remuneration of employees and policies

The Group recognises that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance.

The Group enjoys good relations with staff and has not experienced any disruption of operations due to major labour disputes. In addition to the remuneration as mentioned above, the Group also provides fringe benefits which comply with the relevant laws and regulations of the Mainland China and Hong Kong in relation thereto including contributions to society security scheme of the Mainland China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and provision of training programmes to eligible employees.

Total employee benefit expense incurred for the nine months ended 30th September 2008 increased to approximately HK\$56,622,000 (2007: HK\$46,864,000) mainly due to appreciation of RMB, as well as statutory salary and pension costs increased for workers and managerial staff and quality control staff in China during the period under review. The Company's directors had received remuneration of approximately HK\$466,000 (2007: HK\$441,000) during the nine months ended 30th September 2008.

Training Schemes

The Group provides on-going training programmes for its employees to keep them abreast of the latest market trends and new technologies of loudspeaker systems, and also to enhance their knowledge on latest international quality standards. During the period, the Group provided different training programmes to its management staff to sharpen their management skills and techniques.

OTHER INFORMATION

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the period.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the Companies Law (Revised) of the Cayman Islands.

Connected transactions

On 28th February 2007, Sonavox Acoustics entered into sale and purchase agreements (the "Agreements") with Asian Elite International Company Limited ("Asian Elite"), a company incorporated in Mainland China and indirectly wholly-owned by Mr. Yang Ching Yau, and Sonavox Electronics (Suzhou Industrial Park) Company Limited ("Sonavox Electronics"), a company incorporated in Mainland China and indirectly owned as to 95% by Mr. Yang Ching Yau and his family members, respectively. Pursuant to the Agreements, Sonavox Acoustics has agreed to purchase amplifier systems from Asian Elite, subwoofers and tweeter systems from Sonavox Electronics.

Directors' and chief executives' Interests or short positions in the shares or debentures

As at 30th September 2008, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares

Name of Director	Type of interests	Capacity	Number of shares	Percentage of interest
Mr. Yang Tsu Ying (Note)	Corporate	Interest of a controlled corporation	240,000,000	73.83%
Mr. Yang Ching Yau (Note)	Corporate	Interest of a controlled corporation	240,000,000	73.83%

Note: These shares are registered in the name of Newood Consultancy Limited, a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.

(b) Long positions in the shares of equity derivatives of the Company

Name of Director	Capacity	Description of equity derivatives	Number of share options	Percentage of interest
Mr. Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.615%
Mr. Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.615%

Save as disclosed in this paragraph, as at 30th September 2008, none of the Directors and chief executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders

So far as was known to any Director of the Company, as at 30th September 2008, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) Long positions in the shares of the Company

Name	Capacity	Number of ordinary shares held	Percentage of interest
Newood Consultancy Limited <i>(Note 1)</i>	Beneficial owner	240,000,000	73.83%
Silver Way Limited <i>(Note 1)</i>	Interest of a controlled corporation	240,000,000	73.83%
HSBC International Trustee Limited <i>(Note 1)</i>	Trustee	240,000,000	73.83%
Mr. Yang Tsu Ying <i>(Note 1)</i>	Beneficiary of a trust	240,000,000	73.83%
Mr. Yang Ching Yau <i>(Note 1)</i>	Beneficiary of a trust	240,000,000	73.83%
Madam Yang Chuang Ching-Hsiu <i>(Note 2)</i>	Interest of spouse	240,000,000	73.83%
Ms. Helen Lee <i>(Note 3)</i>	Interest of spouse	240,000,000	73.83%

(b) Long positions in the shares of equity derivatives of the Company

Name	Capacity	Description of equity derivatives	Number of share options	Percentage of interest
Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.615%
Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.615%
Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	Share option	2,000,000	0.615%
Helen Lee (Note 3)	Interest of spouse	Share option	2,000,000	0.615%

Notes:

1. Newood Consultancy Limited is a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.
2. Madam Yang Chuang Ching-Hsiu is the spouse of Mr. Yang Tsu Ying and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Tsu Ying is interested.
3. Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 30th September 2008, the Directors were not aware of any other person or company who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

Other interests discloseable under the SFO

Save as disclosed in the preceding paragraphs headed "Directors' and chief executives' interests or short positions in the shares or debentures" and "Substantial shareholders", so far as is known to the Directors, there is no other person or company who has an interest or short position in the shares, underlying shares or debentures of the Company that is discloseable under the SFO.

Directors' interest in competing business

The Group's ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15th July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

Rights of Directors and employees to acquire shares or debentures

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, and suppliers or customers of the Group. The Scheme became effective on 8th July 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years commencing on the effective date. The share options granted to and held by the Company’s directors during the year were as follows:

Name	Outstanding as at 31st December 2007 and 30th September 2008	Exercise period	Subscription price HK\$
Mr. Yang Tsu Ying	2,000,000	28th June 2006 to 27th June 2015	0.345
Mr. Yang Ching Yau	2,000,000	28th June 2006 to 27th June 2015	0.345

Directors’ interests in contracts

No contracts of significance in relation to the Group’s business to which the Company, its subsidiaries or its holding company, was a party and in which any of the Company’s directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

Audit committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 and Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee members include:

Mr. Fan Chi Fai, Paul* – *Committee Chairman*
Mr. Yiu Chi Wah*
Mr. Lee Fang Yu*

* *Independent non-executive Director*

The Group’s unaudited results for the nine months ended 30th September 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and that adequate disclosures have been made.

Nomination Committee

The nomination committee was established on 28th June 2005 with written terms of reference in compliance with Appendix 15 of the GEM Listing Rules and chaired by the chief executive officer of the Company to make recommendations to the Board on the appointment of Directors and the senior management personnel with reference to certain guidelines as endorsed by the nomination committee members. The nomination committee members include a majority of independent non-executive Directors as follows:

Mr. Yang Ching Yau – *Committee Chairman*
Mr. Yiu Chi Wah*
Mr. Lee Fang Yu*

* *Independent non-executive Director*

Remuneration Committee

The remuneration committee was established on 28th June 2005 with written terms of reference in compliance with Appendix 15 of the GEM Listing Rules and is chaired by an independent non-executive Director with the responsibility of approving the remuneration policy for all directors and senior executives. The remuneration committee members include a majority of independent non-executive Directors as follows:

Mr. Yiu Chi Wah* – *Committee Chairman*
Mr. Lee Fang Yu*
Mr. Fan Chi Fai, Paul*
Mr. Yang Ching Yau

* *Independent non-executive Director*

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the period ended 30th September 2008.

Corporate Governance Practices and Procedures

The Group believes that enhancing good corporate governance demands long-term commitment from management and that the distinctive roles and functions of different committees are important in strengthening internal control.

During the review period, the Company has complied with the new Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

On behalf of the Board
Yang Ching Yau
Executive Director

Hong Kong, 10th November 2008

As at the date of this report, the Board of the Company comprises of two Executive Directors, namely Mr. Yang Tsu Ying and Mr. Yang Ching Yau; and three independent non-executive Directors, namely Mr. Yiu Chi Wah, Mr. Lee Fang Yu, and Mr. Fan Chi Fai, Paul.