ANNUAL REPORT 2007

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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FINANCIAL HIGHLIGHTS

The Group's financial highlights are as follows:

	2007	2006
In HK$'000		
Turnover	**422,204**	369,302
Gross profit	**68,502**	63,199
Profit from operations	**3,834**	18,577
Earning before Interest, Tax, Depreciation and Amortization ("EBITA")	**29,072**	30,834
(Loss)/profit attributable to equity holders of the Company	**(5,696)**	3,602
Total assets	**415,508**	362,940
Total assets less current liabilities	**199,460**	187,668
Total equity	**158,846**	148,214
Business performance ratios:		
Return on total assets (%)	**(1.3%)**	2.4%
Return on Shareholders' funds	**(6.5%)**	4.2%
Gross profit margin (%)	**16%**	17%
Current ratio	**0.91**	1.03
Quick ratio	**0.67**	0.81
Gearing ratio	**29.2%**	24.6%

Definitions for business performance ratios:

Return on total assets	(Loss)/profit after taxation / Total assets	x 100%
Return on Shareholders' funds	(Loss)/profit attributable to shareholders / Shareholders' equity	x 100%
Gross profit margin	Gross profit / Turnover	x 100%
Current ratio	Current assets / Current liabilities	
Quick ratio	Current assets excluding inventories / Current liabilities	
Gearing ratio	Total debt* / Total assets	x 100%

* Debts are defined to include payables incurred not in the ordinary course of business.

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published consolidated income statements and balance sheets of the Group:

1 CONSOLIDATED INCOME STATEMENTS

	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Turnover	115,348	205,552	234,288	369,302	**422,204**
Cost of sales	(81,409)	(152,512)	(189,686)	(306,103)	**(353,702)**
Gross profit	33,939	53,040	44,602	63,199	**68,502**
Other gains – net	231	266	567	4,805	**2,695**
Selling and marketing costs	(4,922)	(9,440)	(12,591)	(15,403)	**(16,434)**
Administrative expenses	(11,361)	(10,602)	(20,295)	(34,024)	**(50,929)**
Operating profit	17,887	33,264	12,283	18,577	**3,834**
Finance costs	(684)	(1,291)	(1,548)	(6,711)	**(11,100)**
Profit/(Loss) before income tax	17,203	31,973	10,735	11,866	**(7,266)**
Income tax	(1,688)	(9,360)	(5,920)	(3,156)	**1,704**
Profit/(Loss) after taxation	15,515	22,613	4,815	8,710	**(5,562)**
Minority interests	(9,152)	(12,527)	(4,792)	(5,108)	**(134)**
Profit/(Loss) attributable to equity holders of the Company	6,363	10,086	23	3,602	**(5,696)**

2 CONSOLIDATED BALANCE SHEETS

	2003 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Total assets	154,834	209,900	228,602	362,940	**415,508**
Total liabilities	(50,293)	(85,374)	(95,604)	(214,726)	**(256,662)**
Total assets less liabilities	104,541	124,526	132,998	148,214	**158,846**
Minority interests	(37,369)	(53,432)	(58,250)	(63,358)	**(70,706)**
Net assets	67,172	71,094	74,748	84,856	**88,140**

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

I am pleased to present the annual results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the year ended 31st December 2007.

Sonavox celebrated its 15th corporate anniversary in 2007. For the past fifteen years, Sonavox has ridden the waves in the industry to grow progressively. Along the way, Sonavox has made many significant achievements and breakthroughs in the industry. Looking back, Sonavox is proud of the leading position it has established and sustained in manufacture and sale of loudspeaker systems in China and overseas markets.

Year 2007 has been an important year for Sonavox. Recognized as the engine for economic growth, the China automobile market continued to experience strong growth during the year. According to the China Association of Automobile Manufacturers ("CAAM"), China produced 8.8 million (2006: 7.3 million) vehicles and sold 8.7 million (2006: 7.2 million) in year 2007. China became the second largest new car market in the world behind the United States. During the year, the Group continued to provide quality and high performance loudspeaker systems for leading automakers in China, customers such as Shanghai Volkswagen, Shanghai General Motors and DongFeng Motors, we continued to increase our market shares and maintained our leading loudspeaker manufacturer position in the China market. Despite the challenging economic environment in overseas markets, Sonavox has made significant achievements in the past year in developing new loudspeaker systems for major customers, who are all leaders in the worldwide automobile industry, such as Ford Motors Company and Volkswagen AG. Sale of loudspeaker systems for automobiles remained as the Group's major revenue stream, accounted for approximately 60% (2006: approximately 55%) of its total turnover. The Group's turnover generated from sale of automobile loudspeaker systems increased by 24% to approximately HK$254 million.

On the automobile electronic market, we are happy to report that we have successfully developed a series of digital amplifiers for a renowned automaker in the United States, which promises new growth opportunities. Last year, we established a new division for development of electronics products for automobiles, marking the successful establishment of a foothold in the international automobile electronic market by the Group. The persistently rising demand for quality car audio manufacturing on an OEM basis and the trend of installing quality in-car audiovisual entertainment systems are driving the demands for high quality automobile loudspeaker and amplifier systems. We are confident that the Group's entry into the automobile electronic market and its ability to capture new business opportunities will bear fruit in the next fiscal year.

With regard to the Group's loudspeaker systems for home theatre, sales slightly dropped by 2% to approximately HK$162 million. The primary reason for the slightly decline of sales in home theatre systems was due to the late launches of some high-end multimedia products. Further, the Group has changed some of its revenue model from sale of a whole product to simply rendering technical service in return for a higher margin royalty income.

CHAIRMAN'S STATEMENT

The Group continued to increase in long-term investment on rolling out several major projects for existing and new customers in overseas and further investment on expanding the Group's sale and manufacture of new audio products in China and overseas markets. These existing projects will become growth drivers for the Group's business for the year ahead as their contributions are reflected in the financial statements, a move which will commence from next fiscal year. In addition, Sonavox with its strong R&D capabilities developed in China and Canada, and close relationship with renowned automakers and leading companies in audio industry, we are confident that these efforts, mirroring our determination to revenue grow, will improve the Group's gross profit margin in the next fiscal year. During the year under review, the Group launched new generation of Digital Signal Processor ("DSP") and upgraded the Group's patented technology, BASH®, for various multimedia docking station audio products. These projects were a very extensive and difficult that has implemented for more than 15 months. As a result of this new generation of DSP and upgraded BASH® technology, a new core competency to compliment to the Group's existing power platforms and lower the cost of production for amplifier will be reaping fruitful results and bringing future revenue to the Group.

The relocation of office and production from the old factory to the new factory in Toronto, Canada, completed in October 2007. The new building not only provided a better working environment but also brought an annual operating lease and other utilities savings of at least 30%. The relocation of factory has necessitated incurrence of some non-recurring costs amounted to approximately HK$1.4 million which includes the movement expenditure, realty tax and additional overtime labour cost to meet committed delivery schedules.

The Group further integrated its production capabilities vertically in order to maintain a consistent quality and just-in-time delivery service, the Group's manufacturing capabilities for automobile loudspeaker systems and home theatre loudspeaker systems has reached 30,000,000 units and 1,000,000 sets per year respectively. Capital expenditure of approximately HK$42.7 million was incurred for the year ended 31st December 2007.

BUSINESS PROSPECTS

Although the possible economic slowdown in the United States and European markets together with the impact on the economic austerity measures of the China government, we still have confident of further expanding the market share of our quality and high performance loudspeaker systems for automobiles and maintaining our leading position in the China automobile industry. The reason is that according to CAAM, forecast of automobiles sales in China will hit a record 10 million units in 2008 and China automobile market has overtaken Japan to become the world's second largest car market trailing only the United States. Currently, vehicle ownership in China was 44 for every 1,000 people. This was far below the world average of 120. Compared with the United States, it had 750 vehicles for every 1,000 people. Further, as living standard and China GDP continued to improve, the growth in demand for mid to high-end quality car is expected to accelerate. For overseas automobile loudspeaker markets, despite the impact of the subprime mortgage crisis may be seeping into low-end car loan sector, we believe that sale of mid- to high-quality car would not be significantly affected.

CHAIRMAN'S STATEMENT

Apart from the loudspeaker systems for automobile market, we believe that the global consumer electronics market, especially China, is huge and has plenty of room for continuous growth over the next few years. With the launch of new multimedia and home theatre loudspeaker products in year 2007, significant amount of revenue will be generated in year 2008. Completion of the new generation of DSP based platforms, despite the volume of products will not be high, it is definitely represent the best of the market and it would be a significant statement for Sonavox. Even though economic conditions are not favourable, we expect a single-digit revenue growth from home theatre loudspeaker systems market.

We expect 2008 to be another challenging year. Our consistent quality and R&D improvement have boosted our confidence in further expanding overseas markets in the future. Additionally, boasting comprehensive vertical integration in the prior years, the Group is ready to exploit the vast potential of the China market. We also believe that the Group's persistent strive for quality and advanced technical expertise will allow the Group to capture the immense business opportunities ahead.

APPRECIATION

Last but not least, on behalf of Sonavox, the senior management and I would like to thank our customers, suppliers, bankers, investors and business partners for their continued trust and support. I would also like to extend my gratitude to all our staff for their hard work and contribution to the Group and shareholders in the past year. Sonavox is poised as "one-stop" audio solution provider in the audio market and bring stable returns for our shareholders.

Yang Tsu Ying
Chairman

Hong Kong, 17th March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2007, the Group recorded a turnover of approximately HK$422.2 million, representing an increase of 14% against approximately HK$369.3 million in previous year. The increase in turnover was mainly attributable to the growth in European and China markets. The Group controlled its gross profit margin stably maintained at nearly the same level in 2006 although the continuous increase in cost of manufacturing overhead, especially that of labour and related welfare costs which slightly pushed up the Group's cost of production.

The Group's selling and distribution expenses slightly increased by 7% from approximately HK$15.4 million to approximately HK$16.4 million. The increase was mainly attributable to the expanding overseas markets and a new subsidiary, Sonavox Europe GmbH, was established in Germany in September 2007, leading to additional business trip expense and traveling cost to European countries. In addition, the inflationary shipping cost is inevitably in China to deliver loudspeaker systems on time to renowned customers.

Administrative expenses substantially increased by 50% from approximately HK$34.0 million to approximately HK$ 50.9 million during the year 2007. Since one of China subsidiaries, Suzhou Hesheng Industrial Co., Ltd. has commenced its operation since January 2007 and Sonavox Europe GmbH commenced its business since September 2007, operating costs was unavoidably increased. In addition, experienced engineers and employees with higher salary level have been hired for these new subsidiaries. Furthermore, the persistent rising demand for quality audiovisual entertainment systems for home use, the Group incurred research and development expense of approximately HK$12 million, 79% up compared with the year 2006. The subsidiary in Canada incurred administrative expenses of approximately HK$13 million for the whole year of 2007 against approximately HK$8 million for the nine-month period ended 31st December 2006 since the acquisition in April 2006.

Finance costs increased by 65% from approximately HK$6.7 million to approximately HK$11.1 million. This was mainly due to additional bank loan obtained in China for expansion of production capabilities to meet customer future demand and additional investment in rolling out several major profitable projects during the year. Increase in market interest rate also result in higher finance costs.

As the total expenses inflated during the year under review, the Group incurred a loss of approximately HK$5.7 million.

Liquidity, financial resources and treasury policies

During 2007, 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 31st December 2007, the Group had cash and bank deposits of approximately HK$25,190,000 (2006: HK$34,599,000). Current ratio dropped from 1.03 to 0.91 mainly due to the Group raised new loans in China and Hong Kong during the year. The decrease in cash and bank deposits was primarily attributable to the increase in inventories and trade receivables due to surging sale orders received by the end of the financial year. The Group had bank overdrafts of approximately HK$9,269,000 (2006: HK$9,499,000) bearing interest rates at Canada's commercial prime lending rate plus 0.75% per annum and short-term bank loans of approximately HK$66,912,000 (2006: HK$35,917,000) bearing interest rates ranging from 3.95% to 6.10% 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, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31st December 2007, the Group has capital commitment of approximately HK$15,639,000 (2006: HK$19,480,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitment of approximately HK$4,784,000 (2006: HK$1,765,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established with registered capital of US$13,000,000 and US$5,000,000 respectively. As at 31st December 2007, the Company had outstanding commitments of approximately US$3,931,000 and US$2,050,000 respectively for capital contribution to these two subsidiaries.

As at 31st December 2007, 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 year. 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 transaction with one of the major overseas customers denominated in RMB and entering purchase contract with overseas suppliers denominated 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$115,898,000 for overdrafts and loan financing as at 31st December 2007. Unused bank facilities as at the same date amounted to approximately HK$27,825,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group with a carrying value of approximately HK$97,022,000.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2007.

NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31st December 2006 and 2007 is set out below:

	2007	2006
Management and administration	**69**	68
Sales and marketing	**43**	40
Manufacturing and operations	**1,612**	1,370
Research and development	**91**	70
Quality assurance and quality control	**150**	126
Finance and accounting	**14**	14
Total	**1,979**	1,688

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 China, Canada and Hong Kong in relation thereto including contributions to society security scheme of China, contribution to the Mandatory Provident Fund Scheme of Hong Kong, mandatory Canada Pension Plan and provision of training programmes to eligible employees.

Total employee benefit expense incurred for the year ended 31st December 2007 increased to approximately HK$68,662,000 (2006: HK$46,739,000) due to increase in number of employees and statutory salary and pension costs increased for workers and managerial staff and quality control staff in China during the year under review. The Company's directors had received remuneration of approximately HK$613,000 (2006: HK$718,000) during the year ended 31st December 2007.

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 year, the Group provided more than 50 different training programmes to its management staff to sharpen their management skills and techniques.

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yang Tsu Ying, aged 74, is the chairman of the company and one of the founders of the Group. He has over 30 years of experience in manufacturing and trading of loudspeaker systems in overseas markets and over 10 years of experience in manufacturing and trading of loudspeaker systems in the Mainland China. He is responsible for the development of the overall corporate policy and strategies as well as overseeing the Group's operation management.

Mr. Yang Ching Yau, aged 38, is the chief executive officer and one of the founders of the Group. He has over 16 years of experience in the sales, engineering, marketing and manufacturing of loudspeaker systems. He is responsible for the sales and marketing, operations and corporate finance of the Group. He is the son of Mr. Yang Tsu Ying.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yiu Chi Wah, aged 44, Mr. Yiu has over 15 years of experience in finance and investment advisory affairs. He holds a bachelor's degree in arts with National Taiwan University in Taiwan and had worked for Polaris Securities (Hong Kong) Limited as a dealing director and an investment adviser registered under the Securities Ordinance. Mr. Yiu was also a director of Polaris Finance Company Limited.

Mr. Wong Kai Tung, Simon, aged 40, is an independent non-executive Director. Mr. Wong had worked for DBS Bank Limited, VC CEF Capital Limited and Deutsche Bank in the investment banking service for the Greater China area. Mr. Wong has over 17 years of corporate and investment banking experience. Mr. Wong holds a bachelor's degree in arts (Honour) from the University of Hong Kong, a post-graduate certificate in Hong Kong Laws from the City University of Hong Kong and the executive certificate from Paris' INSEAD on Young Manager Program.

Mr. Fan Chi Fai, Paul, aged 46, is a qualified accountant. Mr. Fan is a member of Institute of Chartered Accountants in England and Wales and works as Asia Pacific Finance Director of Home and Networks Business for Motorola (China) Electronics Ltd. Mr. Fan has obtained an honour degree in Bachelor of Accountancy, Finance and Economics from the University of Essex, U.K. .

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhou Jian Ming, aged 50, is the general manager of subsidiaries in Mainland China. He is responsible for the general administration of all subsidiaries in Mainland China. He obtained a master's degree in business administration from Nanjing University In Mainland China. He has extensive experience in enterprise management and has over 15 years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無綫電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in Mainland China and overseas.

Mr. Pan Hui Hua, aged 52, is the production manager and assistant general manager of subsidiaries in Mainland China. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over 20 years of experience in the development and production of loudspeaker systems. Mr. Pan had worked for Likou Town Government Industrial Co. ("LTGIC") (蠡口鎮政府工業總公司) as manager and was responsible for monitoring the operations of factories under the control of LTGIC.

Mr. Joe Riggi, aged 43, is the president of Sonavox Canada Inc. ("SCI"). Mr. Riggi joined Indigo Manufacturing Inc. in 1986 and has been in a senior management role for more than 10 years. He holds an Engineering Technologist Degree with DeVry University in Canada and is one of the active members of the Young President's Organisation ("YPO") group. Mr. Riggi is currently responsible for the operation of SCI and implementation of product development and sales and marketing of the Group.

Mr. Poon Lai Yin, Michael, aged 36, is the chief financial officer and the company secretary of the Group. Mr. Poon is responsible for the overall financial management and accounting function of the Group. He is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. He holds a bachelor's degree in administrative studies with York University in Canada and a master's degree in practicing accounting with Monash University in Australia. Mr. Poon has over 11 years of experience in auditing, taxation and accounting. Prior to joining the Group in March 2002, Mr. Poon worked for an international accounting firm and was responsible for providing business advisory and assurance services to some listed clients.

CORPORATE GOVERNANCE REPORT

The board of Directors of Sonavox International Holdings Limited (the "Company") is committed to good standards of corporate governance in order to protect and enhance the interests of our shareholders. The Directors believe that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to all stakeholders.

The Company has complied with the Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") throughout the year ended 31 December 2007 except that Independent non-executive Directors had no set term of office but retire on a rotation basis. The Company is in compliance with all code provisions of the Code on Corporate Governance Practices of the GEM Listing Rules.

Below are the corporate governance practices adopted by the Group.

The corporate governance practices adopted by the Group are as follows:

- Code of ethics and securities transactions;
- Corporate governance practice manual;
- Term of reference for audit committee;
- Term of reference for board committee;
- Term of reference for remuneration committee; and
- Term of reference for nomination committee.

DIRECTORS' SECURITIES TRANSACTIONS

The Code of Ethics and Securities Transactions is adopted by the Company to regulate securities dealings by directors, senior management and certain employees of the Group, and to provide guidelines and procedures on conflict of interests of Directors.

The first part of this Code of Ethics and Securities Transactions is based on the GEM listing rules 5.48 to 5.67 (the "required standard") against which Directors must measure their conduct regarding transactions in securities of their listed issuers, and the Securities Future Ordinance ("SFO").

The second part of this Code of Ethics and Securities Transactions establishes guidelines and procedures regarding conflict of interests of Directors in order to protect the best interests of the Company.

During the year ended 31 December 2007, all Directors have compiled with the Code of Ethics and Securities Transaction.

BOARD OF DIRECTORS

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholder value.

The Board, led by the Chairman, Mr. Yang Tsu Ying, is responsible for the approval and monitoring of Group wide strategies and policies, approval of business plans and oversight of senior management. The senior management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer ("CEO"), Mr. Yang Ching Yau.

CORPORATE GOVERNANCE REPORT

As at 31 December 2007, the Board comprised two Executive Directors, including Chairman and CEO, and three Independent non-executive Directors. Biographical details of the Directors referred to pages 11 to 12 of this annual report.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

The roles of the Chairman and the CEO are segregated and are not exercised by the same individual. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of CEO and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The CEO is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of the Group's policies and assuming full accountability to the Board for all business operations. The CEO develops strategic plans and is directly responsible for maintaining the operational performance of the Group. Working with the Chief Financial Officer ("CFO") and the senior management of the Group, the CEO ensures that the Board is fully informed of the requirements of the businesses of the Group and presents business and financial information to the Board for consideration and approval.

The CEO, with the assistance of the CFO, ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results against plans and budgets, taking remedial actions when necessary and advising the Board of significant developments and issues. He maintains an ongoing dialogue with the Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

Directors' Board meeting is held at least 4 times a year and as when required by the CEO. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held four board meetings in 2007. Attendance of the full board meetings are as follows:

	Name of Directors	**Attended/Eligible to attend**
Chairman	Yang Tsu Ying	100%
CEO	Yang Ching Yau	100%
Independent non-executive Directors	Yiu Chi Wah	100%
	Wong Kai Tung, Simon	100%
	Fan Chi Fai, Paul	100%

Save for the Chairman of the Company, all Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

REMUNERATION OF DIRECTORS

The remuneration committee was established on 28th June 2005. The remuneration committee 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. Wong Kai Tung, Simon*
Mr. Fan Chi Fai, Paul*
Mr. Yang Ching Yau

* *Independent non-executive Director*

All remuneration committee members met at the end of the year for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee members also meets as and when required to consider remuneration related matters.

The works carried out by the remuneration committee are set out below:

(a) to make recommendations to the Board on the Company's policy and structure of remuneration of Directors and the senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the specific remuneration packages of all executive Directors and the senior management, including benefits in kind, provident/retirement benefits and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive Directors;

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

(d) to review and approve the compensation payable to executive Directors, senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

(e) to review and approve 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.

The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits(a)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Yang Tsu Ying	–	65	–	–	–	–	–	65
Mr. Yang Ching Yau	–	260	–	–	–	–	–	260
Mr. Fan Chi Fai, Paul	96	–	–	–	–	–	–	96
Mr. Yiu Chi Wah	96	–	–	–	–	–	–	96
Mr. Wong Kai Tung, Simon	96	–	–	–	–	–	–	96

NOMINATION OF DIRECTORS

The Nomination Committee was established on 28th June 2005. The Nomination Committee chaired by the CEO to make recommendations to the Board on the appointment of Directors and the senior management personnel with reference to certain guidelines as agreed 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. Wong Kai Tung, Simon*

* *Independent non-executive Director*

All nomination committee members met at the end of the year.

The works carried out by the Nomination Committee members are set out below:

(a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

(b) to assess the suitability and qualification of candidates put forward by the CEO and to become new board members and to report to the Board on their assessment;

(c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

(d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the CEO.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and one independent non-executive Director who possess the appropriate business and financial experience and skills to understand financial statements. The audit committee is chaired by Mr. Fan Chi Fai, Paul, and the other audit committee members are Mr. Yiu Chi Wah and Mr. Wong Kai Tung, Simon.

CORPORATE GOVERNANCE REPORT

Under its terms of reference for audit committee passed under a directors' resolution dated 28 June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

The audit committee members held four meetings in 2007. Attendance of the Audit Committee meetings is as follows:

Name of member	Attended
Yiu Chi Wah	100%
Wong Kai Tung, Simon	100%
Fan Chi Fai, Paul	100%

FINANCIAL STATEMENETS

The audit committee met and held discussions with the CEO and CFO of the Group on the interim report, quarterly financial reports and Annual Report. The audit committee reviews and discusses the management's reports and representations with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards and compliance with the GEM Listing Rules and other legal requirements.

It also considers reports from the Group's principal external auditors on the scope and outcome of annual audit of the consolidated financial statements.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system ("ICS") of the Group. The Group adopted a Risk-Based approach and methodology according to COSO (Committee of Sponsoring Organizations of Treadway Commission) and Internal Control and Risk Management – A Basic Framework released by Hong Kong Institute of Certified Public Accountants to assess the effectiveness of ICS of the Group. The ICS is designed to provide reasonable assurance against material misstatement or substantial loss, and to mitigate risk to a level that is acceptable to the audit committee members. The audit committee members play a major role in monitoring the ICS of the Group. It has unrestricted access to review all aspects of the Group's activities and ICS.

EXTERNAL AUDITORS AND REMUNERATION

The audit committee also makes recommendations to the Board on the appointment SHINEWING (HK) CPA Limited ("ShineWing") as external auditors on 21st December 2007. The Group engaged ShineWing for business advisory and assurance service that includes audit services provided in connection with the audit of the consolidated financial statements for the year ended 31st December 2007 with auditors' remuneration fee of approximately HK$400,000. No other non-audit related services were performed by ShineWing.

By Order of the Board

Yang Ching Yau
Chief Executive Officer

Hong Kong, 17th March 2008

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting the annual report together with the audited financial statements of Sonavox International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31st December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of loudspeaker systems to customers in the People's Republic of China ("Mainland China") and overseas markets.

An analysis of the Group's performance by business and geographical segments is set out in Note 8 to the consolidated financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2007, the five largest customers accounted for approximately 39% (2006: approximately 47%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 26% (2006: approximately 18%) of the Group's total purchases. The largest customer of the Group accounted for approximately 24% (2006: approximately 24%) of the Group's total turnover while the largest supplier accounted for approximately 14% (2006: approximately 9.5%) of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December 2007 are set out in the consolidated income statement on page 26.

The Directors do not recommend the payment of a final dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 29.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2007 amounted to approximately HK$47,315,000(2006: approximately HK$53,346,000).

PURCHASE, SALES 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 year.

REPORT OF THE DIRECTORS

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.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 39 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

COMMITMENTS

Particulars of commitments as at 31st December 2007 are set out in Note 34 to the consolidated financial statements.

RETIREMENT PLANS

Details of the retirement plans are set out in Note 37 to the consolidated financial statements.

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, subwoofer and tweeter systems from Sonavox Electronics.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Yang Tsu Ying
Mr. Yang Ching Yau

Independent non-executive directors

Mr. Yiu Chi Wah
Mr. Wong Kai Tung, Simon
Mr. Fan Chi Fai, Paul

In accordance with the Articles of Association of the Company, Mr. Yiu Chi Wah, Mr. Wong Kai Tung, Simon, and Mr. Fan Chi Fai, Paul, will retire from office and, will be eligible to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive Directors of the Company are not appointed for specific contracted terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES OR DEBENTURES

As at 31st December 2007, 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 31st December 2007, 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 31st December 2007, 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 *(Note 1)*	Beneficial owner	240,000,000	73.83%
Silver Way Limited *(Note 1)*	Interest of a controlled corporation	240,000,000	73.83%
HSBC International Trustee Limited *(Note 1)*	Trustee	240,000,000	73.83%
Mr. Yang Tsu Ying *(Note 1)*	Beneficiary of a trust	240,000,000	73.83%
Mr. Yang Ching Yau *(Note 1)*	Beneficiary of a trust	240,000,000	73.83%
Madam Yang Chuang Ching-Hsiu *(Note 2)*	Interest of spouse	240,000,000	73.83%
Ms. Helen Lee *(Note 3)*	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 31st December 2007, 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, Asian Elite International Company 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 2006 and 31st December 2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Subscription price HK$
Mr. Yang Tsu Ying	2,000,000	–	–	–	28th June 2005 to 27th June 2015	0.345
Mr. Yang Ching Yau	2,000,000	–	–	–	28th June 2005 to 27th June 2015	0.345

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in note 35 to the consolidated financial statements, 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 year.

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 year.

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. Wong Kai Tung, Simon*

* *Independent non-executive Director*

In the audit committee meeting held on 15th March 2008, the financial results and the financial position, major accounting and internal auditing issues of the Group for the year ended 31st December 2007 were reviewed and reported to the Board of Directors.

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 independent non-executive Director 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. Wong Kai Tung, Simon*

* *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. Wong Kai Tung, Simon*
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 year ended 31st December 2007.

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 year, the Company has compiled with the new Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

AUDITORS

The accounts have been audited by SHINEWING (HK) CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board,

Yang Tsu Ying
Chairman

Hong Kong, 17th March 2008

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
SONAVOX INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sonavox International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 26 to 63, which comprise the consolidated balance sheet as at 31st December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number : P03224

Hong Kong
17th March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2007

	NOTES	**2007 HK$'000**	2006 HK$'000
Turnover	8	**422,204**	369,302
Cost of goods sold		**(353,702)**	(306,103)
Gross profit		**68,502**	63,199
Other gains – net	8	**2,695**	4,805
Selling and marketing costs		**(16,434)**	(15,403)
Administrative expenses		**(50,929)**	(34,024)
Finance costs	9	**(11,100)**	(6,711)
(Loss)/profit before income tax	10	**(7,266)**	11,866
Income tax	11	**1,704**	(3,156)
(Loss)/profit for the year		**(5,562)**	8,710
Attributable to:			
Equity holders of the Company		**(5,696)**	3,602
Minority interests		**134**	5,108
		(5,562)	8,710
(Loss)/earnings per share	12		
– Basic		**(HK cent 1.75)**	HK cent 1.11
– Diluted		**(HK cent 1.75)**	HK cent 1.11
Dividends	13	**–**	–

CONSOLIDATED BALANCE SHEET

As at 31st December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**167,147**	140,758
Land use rights	17	**12,356**	11,651
Deferred tax assets	26	**10,347**	5,849
Intangible assets	18	**21,532**	19,600
Goodwill	19	**6,316**	5,299
		217,698	183,157
Current assets			
Inventories	20	**53,730**	38,617
Land use rights	17	**293**	276
Trade and note receivables	21	**105,508**	92,599
Prepayments, deposits and other current assets		**11,490**	11,098
Due from a minority shareholder of Mainland China subsidiaries	22	**246**	878
Bank balances and cash	23	**25,190**	34,599
Deferred tax assets	26	**1,353**	1,716
		197,810	179,783
Current liabilities			
Trade and note payables	29	**101,238**	91,851
Accruals and other payables		**28,226**	27,158
Obligations under finance lease – due within one year	25	**326**	201
Bank borrowings – due within one year	27	**76,262**	45,489
Embedded derivative financial instrument	28	**6,593**	6,604
Tax payable		**3,403**	3,969
		216,048	175,272
Net current (liabilities)/assets		**(18,238)**	4,511
Total assets less current liabilities		**199,460**	187,668

CONSOLIDATED BALANCE SHEET

As at 31st December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Obligations under finance lease			
– due after one year	25	**231**	295
Deferred tax liabilities	26	**1,892**	1,892
Bank borrowings – due after one year	27	**2,382**	2,472
Convertible bonds	28	**36,109**	34,795
		40,614	39,454
		158,846	148,214
Capital and reserves			
Share capital	24	**3,251**	3,251
Reserves		**84,889**	81,605
Equity attributable to equity holders of the Company		**88,140**	84,856
Minority interests		**70,706**	63,358
		158,846	148,214

The consolidated financial statements on pages 26 to 63 were approved and authorised for issue by the Board of Directors on 17th March 2008 and are signed on its behalf by :

YANG TSU YING
Chairman

YANG CHING YAU
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2007

	Attributable to equity holders of the Company										
	Share Capital	Share premium	Property revaluation reserve	Statutory reserves (Note a)	Share-based payment reserve	Merger reserve (Note b)	Cumulative translation adjustment	Accumulated profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2006	3,200	25,753	2,598	6,466	1,948	2,441	1,729	30,613	74,748	58,250	132,998
Profit for the year	–	–	–	–	–	–	–	3,602	3,602	5,108	8,710
Transfer to statutory reserves	–	–	–	347	–	–	–	(347)	–	–	–
Shares issued on acquisition of a subsidiary	51	1,929	–	–	–	–	–	–	1,980	–	1,980
Translation adjustments	–	–	–	–	–	–	4,526	–	4,526	–	4,526
At 31st December 2006 and 1st January 2007	3,251	27,682	2,598	6,813	1,948	2,441	6,255	33,868	84,856	63,358	148,214
(Loss)/profit for the year	–	–	–	–	–	–	–	(5,696)	(5,696)	134	(5,562)
Transfer to statutory reserves	–	–	–	437	–	–	–	(437)	–	–	–
Translation adjustments	–	–	–	–	–	–	8,980	–	8,980	7,214	16,194
At 31st December 2007	3,251	27,682	2,598	7,250	1,948	2,441	15,235	27,735	88,140	70,706	158,846

Notes :

(a) **Statutory reserves**

Pursuant to the articles of association of the Group's subsidiaries in Mainland China, appropriations are made from the accumulated profits to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in Mainland China. Such appropriations to reserves would be made only with approval from the board of directors of the Group's subsidiaries.

(b) **Merger reserve**

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Operating activities			
Net cash inflow generated from operations	30	**14,992**	26,028
Adjustments for:			
Canada corporation income tax paid		**–**	(1,357)
Mainland China enterprise income tax paid		**(2,254)**	(2,157)
Net cash inflow from operating activities		**12,738**	22,514
Investing activities			
Acquisition of property, plant and equipment		**(42,659)**	(52,317)
Proceeds from disposal of property, plant and equipment		**201**	243
Acquisition of a wholly-owned subsidiary (net of cash and cash equivalents acquired)	33	**–**	(27,174)
Interest received		**159**	306
Net cash used in investing activities		**(42,299)**	(78,942)
Financing activities			
Interest paid		**(9,880)**	(3,127)
New bank loans raised		**142,545**	38,778
Repayment of short-term bank loans		**(111,778)**	(32,037)
Repayment of mortgage loan		**(84)**	(52)
Issue of convertible bonds		**–**	38,791
Transaction cost in relation to issue of convertible bonds		**–**	(337)
Repayment of capital element of finance lease		**(30)**	(129)
Decrease in amount due from a minority shareholder of Mainland China subsidiaries		**632**	735
Net cash inflow from financing activities		**21,405**	42,622
Net decrease in cash and cash equivalents		**(8,156)**	(13,806)
Cash and cash equivalents at 1st January		**34,599**	47,460
Effect of foreign exchange rate changes		**(1,253)**	945
Cash and cash equivalents at 31st December		**25,190**	34,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

1. GENERAL INFORMATION

Sonavox International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") are principally engaged in the investment holding, manufacture and sale of loudspeaker systems to customers in the People's Republic of China ("Mainland China") and overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of the registered office is 14th Floor, Kam Sang Building, No. 255-257 Des Voeux Road Central, Hong Kong. The directors regard Newood Consultancy Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

The shares of the Company have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 19th July 2002.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK$18,238,000 as at 31st December 2007. The directors are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration of the unutilised banking facilities of the Group with an aggregate amount of over HK$20 million. In addition, the directors anticipate that the Group will generate positive cash flows from its business in the coming year.

On the basis that ongoing support from its major bankers will continue to be in place and positive cash flows will be generated from the Group's businesses, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised 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") which are effective for the Group's financial year beginning on 1st January 2007. The application of the new and revised HKFRSs has had no material effect on how the results and financial position for the current and prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective for the Group's financial year beginning on 1st January 2007. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKFRS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Interpretation ("Int") 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK (IFRIC) – Int 12	Service Concession Arrangements[3]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1st January 2009.
2 Effective for annual periods beginning on or after 1st March 2007.
3 Effective for annual periods beginning on or after 1st January 2008.
4 Effective for annual periods beginning on or after 1st July 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain buildings and financial instruments, which are measured at revalued amounts and fair values, respectively, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a subsidiary is carried at cost less any accumulated impairment losses and presented separately in the consolidated balance sheet.

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 consolidated income statement. Impairment loss for goodwill is not reversed in subsequent periods.

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or a service that are subject to risk and returns that are different from those of other business segments. A geographic segment is engaged in providing products or a service within a particular economic environment that are subject to risk and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

Sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 cumulative translation adjustment reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the cumulative translation adjustment reserve.

Property, plant and equipment

Buildings comprise mainly factory premises. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent accumulated depreciation and any subsequent accumulated impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to property revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against property revaluation reserve directly in equity; all other decreases are expensed in the consolidated income statement.

Construction in progress is stated at cost less any recognised impairment loss. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No deprecation is provided in respect of construction in progress.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Expected useful life	Estimated residual value
Buildings	Over terms of leasehold land, or 30 years whichever is shorter	0%
Leasehold improvements	5 years	10%
Machinery, furniture and equipment	5-10 years	10%
Motor vehicles	5 years	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 assets. Gain and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement. When revalued assets are sold or retired, the amounts included in property revaluation reserve are transferred to accumulated profits.

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 lease.

Intangible assets

Research and development expenditure

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 its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. 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.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on non-financial assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of non-financial assets below).

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

When impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (other than goodwill and intangible assets – see the accounting policies in respect of goodwill above)

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 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 expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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 and note receivables, deposits and other current assets, due from minority shareholders of Mainland China subsidiaries and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted.

For certain categories of loans and receivables, such as trade and note receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of loans and receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a loans and receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including bank borrowings, trade and note payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

Equity instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration pay and payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. 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 years 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 amounts 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Employee benefits

Employee leave entitlements:

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to non-accounting compensated absences are not recognised until the time of leave.

Profit sharing and bonus plans:

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Pension obligations:

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution plan are charged as an expense when employees have rendered services entitling them to the contributions.

Share-based compensation:

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

At the time when the share options are exercised, the amount previously recognised in share based payment 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 based payment reserve will be transferred to accumulated profits.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods in the ordinary course of the Group's activities. Revenue is shown as net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods

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

Service income

Service income is recognised when services are provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

Borrowing costs

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

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. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

6. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's Finance Department under policies approved by the Board of Directors. The Group's Finance Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Currency risk

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in Mainland China and Canada is managed primarily through borrowings denominated in the relevant foreign currencies.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group's convertible bonds also expose to such foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
United States dollar	**48,877**	77,831	**19,567**	33,487
Europe dollar	**6,251**	3,387	**76**	–

The Group does not currently have a foreign currency hedging policy in respect of foreign currency debts. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency of the group entity against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in profit where the functional currency of the group entity weakening 5% against the relevant currency. For a 5% strengthen of the functional currency of the group entity against the relevant currency, there would be an equal and opposite impact on the profit.

	Profit and loss	
	2007 HK$'000	2006 HK$'000
United States dollar impact	**1,465**	2,217
Europe dollar impact	**309**	169

(ii) Price risk

The Group is not exposed to equity securities price risk or commodity price risk as it does not hold investments classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

(b) Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure the sales of products are made to customers with an appropriate credit history. In addition, a predetermined credit limit and term have been set for each customer.

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December 2007, the Group has available unutilised short-term bank loan facilities of approximately HK$27,825,000 (2006: HK$20,639,000). Details of which are set out in Note 27.

The Group is exposed to liquidity risk as the Group recorded net current liabilities of approximately HK$18,238,000 as at the balance sheet date. In order to mitigate the liquidity risk the Group has obtained sufficient banking facilities which enable the Group to continue its operations. There was net cash inflow from the operating activities and the Group expected that there is no material capital expenditure in the coming year. The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due.

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For the year ended 31st December 2007

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	Within 1 year HK$'000	1-5 years HK$'000	>5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 31/12/2007 HK$'000
2007					
Non-derivative financial liabilities					
Trade and note payables	**101,238**	**–**	**–**	**101,238**	**101,238**
Other payables	**25,909**	**–**	**–**	**25,909**	**25,909**
Bank overdrafts and short-term loans	**76,181**	**–**	**–**	**76,181**	**76,181**
Long-term bank loans at variable rate	**190**	**760**	**2,754**	**3,704**	**2,463**
Obligations under finance lease	**369**	**247**	**–**	**616**	**557**
Convertible bonds	**3,122**	**48,390**	**–**	**51,512**	**36,109**
	207,009	**49,397**	**2,754**	**259,160**	**242,457**

	Within 1 year HK$'000	1-5 years HK$'000	>5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 31/12/2007 HK$'000
2006					
Non-derivative financial liabilities					
Trade and note payables	91,851	–	–	91,851	91,851
Other payables	22,102	–	–	22,102	22,102
Bank overdrafts and short-term loans	45,416	–	–	45,416	45,416
Long-term bank loans at variable rate	222	890	3,171	4,283	2,545
Obligations under finance lease	235	313	–	548	496
Convertible bonds	3,100	51,512	–	54,612	34,795
	162,926	52,715	3,171	218,812	197,205

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible bonds (see note 28 for details of the convertible bonds) for the years ended 31st December 2007 and 2006. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group considered that the interest rate risk was immaterial for the year.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

7. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (CONTINUED)

Critical accounting estimates and assumptions (continued)

Useful life of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. The estimate is based on the expected lifespans of those property, plant and equipment. It could change significantly as a result of technical innovation in response to industry cycles. Management will increase/decrease the depreciation expense where useful lives are less/more than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Amortisation of trademark and patents

Trademark and patents are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful lives of trademark and patents and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Fair value of derivatives and other financial instruments

As described in Note 6, the directors of the Company use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used are disclosed in Note 6.

Critical judgment in applying the entity's accounting policies

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. A provision for impairment for estimated irrecoverable amounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

In determining whether a provision for impairment of trade receivables is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Provision for impairment is only made for trade receivables that are unlikely to be collected.

8. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2007 **HK$'000**	2006 HK$'000
Turnover		
Manufacture and sales of loudspeaker systems (a)	**422,204**	369,302
Other gains – net		
Interest income	**159**	306
Subsidy income (b)	**–**	282
Sales of scrap materials	**664**	3,379
Service fee income	**1,407**	–
Gain on issue of convertible bonds	**–**	468
Fair value changes in embedded derivative financial instrument *(Note 28)*	**33**	171
Others	**432**	199
	2,695	4,805
Total revenues	**424,899**	374,107

Notes:

(a) Approximately 40% of the Group's turnover for the year ended 31st December 2007 (2006: 47%) arose from the Group's top five customers.

(b) Subsidy income represented local government subsidies paid to the Group based on the pre-determined level of expenditures spent on certain advanced technology projects by the Group during the year ended 31st December 2006.

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For the year ended 31st December 2007

8. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	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	8,280	153,180	18,953	177,484	32,447	31,860	422,204
Segment results	(3,449)	2,427	320	1,469	340	32	1,139
Other gains – net							2,695
Finance costs							(11,100)
Loss before income tax							(7,266)
Income tax expense							1,704
Loss for the year							(5,562)
Minority interests							(134)
Loss attributable to equity holders of the Company							(5,696)

	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
Segment assets	12,724	324,819	–	66,043	222	–	403,808
Unallocated assets							11,700
Total assets							415,508
Segment liabilities	11,276	173,494	–	27,017	–	–	211,787
Unallocated liabilities							44,875
Total liabilities							256,662
Capital expenditure	–	39,294	–	3,456	–	–	42,750
Deprecation and amortisation	164	22,495	–	2,579	–	–	25,238
Loss on disposal of property, plant and equipment	–	3,819	–	252	–	–	4,071

8. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2006						
	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	7,777	99,132	20,564	200,095	13,031	28,703	369,302
Segment results	(2,705)	3,706	734	9,430	731	1,876	13,772
Other gains - net							4,805
Finance costs							(6,711)
Profit before income tax							11,866
Income tax expense							(3,156)
Profit for the year							8,710
Minority interests							(5,108)
Profit attributable to equity holders of the Company							3,602

	2006						
	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
Segment assets	7,990	290,852	–	56,533	–	–	355,375
Unallocated assets							7,565
Total assets							362,940
Segment liabilities	5,437	120,974	–	43,348	–	–	169,759
Unallocated liabilities							44,967
Total liabilities							214,726
Capital expenditure	4,614	47,101	–	1,227	–	–	52,942
Depreciation and amortisation	164	11,506	–	587	-	–	12,257
Loss/(gain) on disposal of property, plant and equipment	–	736	–	(63)	–	–	673
(Reversal of allowance)/ allowance for doubtful debts	–	(803)	–	571	–	–	(232)

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, receivables and operating cash. They exclude deferred taxation.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and deferred taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**6,628**	3,007
Mortgage loan repayable over 5 years	**109**	92
Finance lease	**43**	28
Interest on convertible bonds	**4,320**	3,584
	11,100	6,711

10. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax has been arrived at after charging/(crediting):

	2007 HK$'000	2006 HK$'000
Depreciation on property, plant and equipment	**23,445**	10,536
Amortisation on intangible assets	**1,510**	1,400
Amortisation on land use rights	**283**	321
Employee benefit expense *(Note 14)*	**68,662**	46,739
Changes in inventories of finished goods and work in progress	**6,824**	5,017
Raw materials and consumables used	**291,086**	298,637
Auditors' remuneration	**521**	435
Operating lease charges	**1,898**	1,372
Research and development costs	**12,142**	6,765
Allowance/(reversal of allowance) for doubtful debts	**175**	(232)
Loss on disposal of property, plant and equipment	**4,071**	673
Foreign exchange loss	**4,186**	537

11. INCOME TAX

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.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The directors anticipated that there is no material impact on the Group's operating results in applying the New Law as the taxation losses of PRC subsidiaries were not recognised as deferred tax assets by the Group at the balance sheet date.

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 (2006: nil) for the subsidiaries operating in Hong Kong during the year ended 31st December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

11. INCOME TAX (CONTINUED)

The amount of taxation-(credited)/charged to the consolidated income statement represents:

	2007 HK$'000	2006 HK$'000
Current taxation		
– Canada corporation income tax	–	2,538
– Mainland China enterprise income tax	316	1,396
Under/(over) provision of Mainland China enterprise income tax in prior year	1,372	(1,517)
Deferred taxation *(Note 26)*	(3,392)	739
	(1,704)	3,156

The income tax (credit)/expense can be reconciled to the (loss)/profit before income tax as per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
(Loss)/profit before income tax	(7,266)	11,866
Tax calculated at domestic tax rates applicable to profits in the respective countries	(150)	5,075
Under/(Over) provided tax in prior year	1,372	(1,517)
Expenses not deductible for taxation purposes	958	1,848
Income not subject to tax	(1,655)	(497)
Utilisation of previously unrecognised tax losses	–	(1,181)
Unrecognised tax losses	1,237	721
Effect of concessionary tax rate	(3,466)	(1,735)
Net effect of deductible temporary difference not recognised	–	442
Income tax (credit)/expense	(1,704)	3,156

12. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
(Loss)/profit attributable to equity holders of the Company (HK$'000)	(5,696)	3,602
Weighted average number of ordinary shares in issue ('000)	325,090	323,682
Basic (loss)/earnings per share (HK cent per share)	(1.75)	1.11

(b) Diluted

Diluted loss/earnings 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 (Note 36). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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12. (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted (Continued)

In addition, the computation of diluted loss/earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease/increase in loss/profit per share from continuing operations.

	2007	2006
(Loss)/profit used to determine diluted earnings per share (HK$'000)	(5,696)	3,602
Weighted average number of ordinary shares in issue ('000)	325,090	323,682
Effect of dilutive potential ordinary shares ('000)	495	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	325,585	323,682
Diluted (loss) earnings per share (HK cent per share)	(1.75)	1.11

13. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31st December 2007 (2006: nil).

14. EMPLOYEE BENEFIT EXPENSE

	2007 HK$'000	2006 HK$'000
Wages and salaries	62,352	42,773
Pension costs	6,310	3,966
	68,662	46,739

15. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director for the year ended 31st December 2007 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits (a*) HK$'000	Employer's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Executive:								
– Mr. Yang Tsu Ying	–	65	–	–	–	–	–	65
– Mr. Yang Ching Yau	–	260	–	–	–	–	–	260
Independent non-executive:								
– Mr. Fan Chi Fai, Paul	96	–	–	–	–	–	–	96
– Mr. Yiu Chi Wah	96	–	–	–	–	–	–	96
– Mr. Wong Kai Tung, Simon	96	–	–	–	–	–	–	96

15. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each director for the year ended 31st December 2006 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits (a*)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive:								
– Mr. Yang Tsu Ying	–	170	–	–	–	–	–	170
– Mr. Yang Ching Yau	–	260	–	–	–	–	–	260
Independent non-executive:								
– Mr. Fan Chi Fai, Paul	96	–	–	–	–	–	–	96
– Mr. Yiu Chi Wah	96	–	–	–	–	–	–	96
– Mr. Wong Kai Tung, Simon	96	–	–	–	–	–	–	96

Note:

* Other benefits include share-based payment, housing and other allowances.

No director waived any emolument during both years. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for both years.

Analysis of directors' emoluments by number of directors and emolument range is as follows:

	2007	2006
Executive directors		
– nil to HK$1,000,000	**2**	2
Independent non-executive directors		
– nil to HK$1,000,000	**3**	3
	5	5

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries and allowances	**1,412**	1,082
Pension costs	**32**	30
	1,444	1,112

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the remaining three highest paid individuals fell within the range of nil to HK$1,000,000.

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For the year ended 31st December 2007

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation						
At 1st January 2006	26,467	2,853	52,931	3,234	43,635	129,120
Additions	19,743	37	15,022	773	17,367	52,942
Acquired on acquisition of a subsidiary	–	135	2,658	–	–	2,793
Transfers	27,655	–	–	–	(27,655)	–
Disposals	–	–	(3,446)	(147)	–	(3,593)
Translation adjustments	1,039	112	2,079	127	1,713	5,070
At 31st December 2006 and 1st January 2007	**74,904**	**3,137**	**69,244**	**3,987**	**35,060**	**186,332**
Additions	**74**	**1,446**	**7,595**	**2,852**	**30,783**	**42,750**
Transfers	**–**	**11,786**	**17,800**	**–**	**(29,586)**	**–**
Disposals	**(313)**	**(1,931)**	**(3,165)**	**(1,693)**	**–**	**(7,102)**
Translation adjustments	**5,587**	**549**	**7,618**	**299**	**2,800**	**16,853**
At 31st December 2007	**80,252**	**14,987**	**99,092**	**5,445**	**39,057**	**238,833**
Accumulated depreciation						
At 1st January 2006	–	2,853	30,251	2,650	–	35,754
Charge for the year	2,581	78	7,531	346	–	10,536
Disposals	–	–	(2,677)	–	–	(2,677)
Translation adjustments	–	112	1,745	104	–	1,961
At 31st December 2006 and 1st January 2007	**2,581**	**3,043**	**36,850**	**3,100**	**–**	**45,574**
Charge for the year	**3,528**	**7,715**	**11,414**	**788**	**–**	**23,445**
Disposals	**(179)**	**–**	**(1,295)**	**(1,356)**	**–**	**(2,830)**
Translation adjustments	**171**	**498**	**4,611**	**217**	**–**	**5,497**
At 31st December 2007	**6,101**	**11,256**	**51,580**	**2,749**	**–**	**71,686**
Carrying values						
At 31st December 2007	**74,151**	**3,731**	**47,512**	**2,696**	**39,057**	**167,147**
At 31st December 2006	72,323	94	32,394	887	35,060	140,758

Depreciation expense of approximately HK$4,485,000 (2006: HK$4,548,000) has been included in cost of goods sold.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2007 HK$'000	2006 HK$'000
Cost	**74,484**	74,410
Accumulated depreciation	**(11,896)**	(8,368)
Carrying amount	**62,588**	66,042

Bank borrowings are secured by buildings with the carrying amounts of approximately HK$74,151,000 (2006: HK$72,323,000) (Note 27).

The carrying amounts of machinery, furniture and equipment includes an amount of approximately HK$692,000 (2006: HK$531,000) in respect of assets held under finance lease.

The analysis of the cost or valuation at 31st December 2007 of the above asset is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery, Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost	53,785	14,987	99,092	5,445	39,057	212,366
At valuation	26,467	–	–	–	–	26,467
	80,252	14,987	99,092	5,445	39,057	238,833

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The analysis of the cost or valuation at 31st December 2006 of the above asset is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery, Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost	48,437	3,137	69,244	3,987	35,060	159,865
At revaluation	26,467	–	–	–	–	26,467
	74,904	3,137	69,244	3,987	35,060	186,332

The fair values of the buildings are, in the opinion of the Company's directors, not less than their carrying values as at the balance sheet date. The fair values were determined by reference to recent market for similar properties. The Group's buildings were last revalued at 31st December 2005. Valuations were made on the basis of open market value by Malcom & Associates Appraisal Limited, an independent qualified valuer.

17. LAND USE RIGHTS

The Group's land use rights represent prepaid operating lease payments and their net carrying values are analysed as follows:

	2007 HK$'000	2006 HK$'000
Outside Hong Kong, held on leases of 50 years	**12,649**	11,927
Beginning of year	**11,927**	11,786
Amortisation of prepaid lease payments	**(283)**	(321)
Translation adjustments	**1,005**	462
End of year	**12,649**	11,927
Analysed for reporting purposes as:		
Current asset	**293**	276
Non-current asset	**12,356**	11,651
	12,649	11,927

Bank borrowings are secured by land use rights with the carrying amount of approximately HK$12,649,000 (2006: HK$11,927,000) (Note 27).

18. INTANGIBLE ASSETS

	Trademark and patents HK$'000
Cost	
Acquired on acquisition of a subsidiary *(Note 33)*, at 31st December 2006 and 1st January 2007	21,000
Translation adjustment	3,442
At 31st December 2007	**24,442**
Amortisation	
At 1st January 2006	–
Provided for the year	1,400
At 31st December 2006	1,400
Provided for the year	1,510
At 31st December 2007	**2,910**
Carrying amounts	
At 31st December 2007	**21,532**
At 31st December 2006	19,600

Amortisation of approximately HK$1,510,000 is included in administrative expenses in the consolidated income statement.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over 15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

19. GOODWILL

	HK$'000
Cost	
Arising on acquisition of a subsidiary *(Note 33)*, at 31st December 2006 and 1st January 2007	5,299
Translation adjustment	1,017
At 31st December 2007	6,316
Impairment	
At 1st January 2006, 31st December 2006 and 31st December 2007	–
Carrying amounts	
At 31st December 2007	6,316
At 31st December 2006	5,299

The goodwill was arising on acquisition of SCI on 12th April 2006 and is tested for impairment at least annually.

The recoverable amount of SCI has been determined based on a value in use calculation. During the year ended 31st December 2007, the senior management of the Group prepared profit forecast and cash flow forecast (the "Forecast") in respect of SCI. The Forecast was based on financial budgets approved by senior management covering five years. The Forecast is based on the budgeted gross margins during the budgetary period. Budgeted gross margins have been determined based on the management's past performance and expectation for the consumer electronic market development. The expected growth rate does not exceed the annual growth rate for the consumer electronic business in which SCI operates. The directors are of the opinion, based on the Forecast, that the recoverable amount of the goodwill arising from acquisition of SCI does not exceed its carrying amount in the consolidated balance sheet and any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of SCI to exceed its aggregate recoverable amount. No impairment loss is necessary.

20. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**26,388**	18,099
Work-in-progress	**6,058**	6,712
Finished goods	**21,284**	13,806
	53,730	38,617

At 31st December 2007, inventories of approximately HK$47,672,000 (2006: HK$13,806,000) were stated at net realisable values.

The cost of inventories recognised as expense and included in cost of goods sold amounted to approximately HK$297,910,000 (2006: HK$303,654,000).

21. TRADE AND NOTE RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade and note receivables		
– third parties	**108,725**	95,653
– related parties *(Note 35)*	**172**	160
	108,897	95,813
Less: Allowance for doubtful debts	**(3,389)**	(3,214)
	105,508	92,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

21. TRADE AND NOTE RECEIVABLES (CONTINUED)

The majority of the Group's sales is on open account in accordance with terms specified in the contacts governing relevant transactions. The credit period is generally for a period of 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 31st December 2007, the ageing analysis of the Group's trade and note receivables was as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	**64,217**	43,548
31 – 60 days	**23,148**	29,072
61 – 90 days	**10,089**	12,278
91 – 180 days	**6,915**	6,796
181 – 360 days	**3,355**	2,434
Over 360 days	**1,173**	1,685
	108,897	95,813
Less: Allowance for doubtful debts	**(3,389)**	(3,214)
	105,508	92,599

As at 31st December 2007, the top five customers accounted for 24% (2006: 43%) of the Group's trade and note receivables. The overdue but not impaired balances are approximately HK$8,054,000 (2006: HK$7,701,000).

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	**3,214**	3,446
Impairment loss recognised	**175**	–
Impairment loss reversed	**–**	(232)
Balance at end of the year	**3,389**	3,214

At 31st December 2007 and 2006, the analysis of trade and note receivables that were past due but not impaired are as follows:

	Total	**Neither past due nor impaired**	**Past due but not impaired**	
			<90days	**91 to 180 days**
	HK$'000	HK$'000	HK$'000	HK$'000
31st December 2007	105,508	97,454	6,915	1,139
31st December 2006	92,599	84,898	6,796	905

Trade and note receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and note receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. DUE FROM A MINORITY SHAREHOLDER OF MAINLAND CHINA SUBSIDIARIES

Amount due from a minority shareholder of Mainland China subsidiaries is unsecured, interest-free and repayable on demand.

23. BANK BALANCES AND CASH

	2007 HK$'000	2006 HK$'000
Cash and bank deposits denominated in:		
Chinese Renminbi	**18,036**	23,222
United States dollar	**4,664**	8,043
Europe dollar	**740**	–
Hong Kong dollar	**1,750**	3,320
Others	**–**	14
	25,190	34,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

23. BANK BALANCES AND CASH (CONTINUED)

The Group's cash and bank deposits of approximately HK$18,036,000 (2006: HK$23,222,000) are denominated in Chinese Renminbi and are placed with banks in Mainland China. The remittance of these funds out of Mainland China is subjected to the exchange control restriction imposed by the government of Mainland China.

The effective interest rates on short-term bank deposits ranged from 0.6% to 1.5% (2006: from 0.72% to 1.4%).

24. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	Nominal value HK$'000
Authorised:		
At 31st December 2006 and 31st December 2007	20,000,000,000	200,000
Issued and fully paid:		
At 1st January 2006	320,000,000	3,200
Issued on acquisition of a wholly-owned subsidiary	5,089,974	51
At 31st December 2006 and 31st December 2007	325,089,974	3,251

The Company issued 5,089,974 ordinary shares (the "Consideration Shares") on 12th April 2006 (1.57% of the enlarged issued share capital of the Company) to the shareholders of SCI as part of the purchase consideration for the entire issued shares of SCI. The consideration shares rank pari passu with the existing shares in all respects except that the consideration shares are restricted to be transferred or disposed of within 12 months from 12th April 2006. The fair value of the consideration shares, determined using the discounted price at the date of the acquisition, amounted to approximately HK$1,980,000 (HK$0.389 per share) (Note 33).

25. OBLIGATIONS UNDER FINANCE LEASE

It is the Group's policy to lease one of its motor vehicles and some equipment under finance lease. The lease term is fixed at three years. Interest rate underlying the obligations under finance lease is fixed at 8.5%. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Amounts payable under finance lease:				
Within one year	**369**	235	**326**	201
In more than one year but not more than two years	**182**	235	**169**	218
In more than two years but not more than three years	**65**	78	**62**	77
	616	548	**557**	496
Less: Future finance charges	**(59)**	(52)	**N/A**	N/A
Present value of lease obligations	**557**	496	**557**	496
Less: Amount due for settlement within one year (shown under current liabilities)			**(326)**	(201)
Amount due for settlement after one year			**231**	295

The Group's obligations under finance lease as at 31st December 2007 is denominated in Canadian dollar. It is secured by the lessor's charge over the leased assets.

26. DEFERRED TAXATION

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Accelerated tax depreciation		Provision for assets		Tax losses		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Deferred tax assets								
At 1st January	**2,680**	2,540	**1,453**	1,141	**3,432**	–	**7,565**	3,681
Acquisition of a wholly-owned subsidiary	**–**	–	**–**	–	**–**	4,613	**–**	4,613
Translation adjustments	**194**	7	**105**	3	**444**	–	**743**	10
Credited/(charged) to consolidated income statement	**–**	133	**15**	309	**3,377**	(1,181)	**3,392**	(739)
At 31st December	**2,874**	2,680	**1,573**	1,453	**7,253**	3,432	**11,700**	7,565

	Revaluation of buildings	
	2007 HK$'000	2006 HK$'000
At 1st January and 31st December 2007	**(1,892)**	(1,892)

Deferred tax assets and liabilities are further analysed as follows:

	2007 HK$'000	2006 HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	**10,347**	5,849
– Deferred tax assets to be recovered within 12 months	**1,353**	1,716
	11,700	7,565
Deferred tax liabilities to be settled after 12 months	**(1,892)**	(1,892)

Deferred tax assets are recognised for tax losses carry forwards to the extent that the realisation of related tax benefits through the future taxable profits is probable. The Group did not recognise deferred tax assets of approximately HK$4,969,000 (2006: HK$388,000) that can be carried forward against future taxable income. Losses amounting to approximately HK$13,826,000 (2006: HK$13,494,000) will expire during 2009 to 2026.

27. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Secured		
Bank overdrafts	**9,269**	9,499
Short-term bank loans	**66,912**	35,917
Mortgage loan	**2,463**	2,545
	78,644	47,961
Carrying amount repayable:		
On demand or within one year	**76,262**	45,489
More than one year, but not exceeding two years	**85**	77
More than two years, but not exceeding five years	**262**	261
More than five years	**2,035**	2,134
	78,644	47,961
Less: Amounts due within one year shown under current liabilities	**(76,262)**	(45,489)
	2,382	2,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
For the year ended 31st December 2007

27. BANK BORROWINGS (CONTINUED)

As at 31st December 2007, the Group's variable-rate bank borrowings bore interest at effective interest rates ranging from 3.95% to 6.10% (2006: from 4.42% to 6.75%) per annum.

The exposure of the Group's variable-rate borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2007 HK$'000	2006 HK$'000
6 months or less	**43,662**	15,002
6 to 12 months	**32,600**	30,487
More than one year but not more than two years	**85**	77
More than two years but not more than three years	**83**	82
More than three years but not more than four years	**87**	87
More than four years but not more than five years	**92**	92
More than five years	**2,035**	2,134
	78,644	47,961

The carrying amounts of the borrowings are denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Chinese Renminbi	**60,990**	35,917
United State dollar	**3,122**	–
Hong Kong dollar	**5,263**	2,545
Canadian dollar	**9,269**	9,499
	78,644	47,961

During the year, the Group obtained new loans in the amount of approximately HK$142,545,000. The loans bear interest at market rates and will be repayable within one year except a mortgage loan of approximately HK$2,463,000 which will be repayable in a period of 20 years.

28. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENT

On 6th April 2006, the Company issued 8% convertible redeemable bonds ("Convertible Bonds") due 2011 at a principal amount of US$5,000,000 (equivalent to approximately HK$38,791,000). The Convertible Bonds can be converted up to an aggregate 96,977,500 ordinary shares of the Company at HK$0.40 each. The Company shall have the option to redeem the Convertible Bonds in whole or in part (i) at any time after the second anniversary of the date of issue of the Convertible Bonds until 30 days prior to the maturity date, provided that the average closing price of the shares stated in the daily quotation sheet of the Stock Exchange for 20 consecutive trading date exceed 130% of the prevailing conversion price; or (ii) at any time the outstanding Convertible Bonds is less than 20% of the total issued amount. The amount payable for any redemption shall be 100% of the relevant amount of the principal amount of the Convertible Bonds so redeemed together with interest accrued thereon up to the date of repayment. On the second, third and fourth anniversary of the date of issue of the Convertible Bonds and only on such date, each holder of the Convertible Bonds shall have the right at such holder's option to require the Company to redeem the Convertible Bonds held by such holder at 100% of the principal amount with respect to such Convertible Bonds together with interest accrued thereon up to the date of repayment.

The Convertible Bonds contain two components, a liability component and an embedded derivative financial instrument. The fair value of the liability component, included in non-current liabilities, amounted to approximately HK$31,211,000, net of transaction costs, at the issuance date. The fair value of the embedded derivative financial instrument was estimated at the issuance date by reference to the Binomial Model. The effective interest rate of the liability component is 12.9%. The embedded derivative is subsequently measured at fair value with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

28. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENT (CONTINUED)

The movement of the liability component and embedded derivative financial instrument for the year is set out as below:

	Liability component HK$'000	Embedded derivative financial instrument HK$'000
Issue of Convertible Bonds	31,211	6,775
Interest charge	3,584	–
Gain arising on change in fair value *(Note 8)*	–	(171)
At 31st December 2006 and 1st January 2007	34,795	6,604
Exchange realignment	94	22
Interest charge	4,320	–
Interest paid	(3,100)	–
Gains arising on changes of fair value *(Note 8)*	–	(33)
At 31st December 2007	36,109	6,593

The fair value of the embedded derivative financial instrument was valued by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected with the Group. The valuation was made by using Binomial model.

29. TRADE AND NOTE PAYABLES

At 31st December 2007, the ageing analysis of the Group's trade and note payables was as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	**51,944**	40,187
31 – 60 days	**23,538**	27,490
61 – 90 days	**17,642**	18,931
91 – 180 days	**7,324**	4,155
181 – 360 days	**504**	648
Over 360 days	**286**	440
	101,238	91,851

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of (loss)/profit before income tax to net cash inflow generated from operations:

	2007 HK$'000	2006 HK$'000
(Loss)/profit before income tax	**(7,266)**	11,866
Interest income	**(159)**	(306)
Interest expenses	**11,100**	6,711
Gain on issue of convertible bonds	**–**	(468)
Fair value changes in embedded derivative financial instrument	**(33)**	(171)
Allowance/(reversal of allowance) for doubtful debts	**175**	(232)
Depreciation and amortisation	**25,238**	12,257
Loss on disposal of property, plant and equipment	**4,071**	673
Operating profit before working capital changes	**33,126**	30,330
Increase in inventories	**(15,113)**	(12,487)
Increase in trade and note receivables	**(13,084)**	(28,022)
Increase in prepayments, deposits and other current assets	**(392)**	(1,329)
Decrease in due from a related company	**–**	516
Increase in trade and notes payables	**9,387**	29,471
Increase in accruals and other payables	**1,068**	7,549
Net cash inflow generated from operations	**14,992**	26,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

31. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December 2007, the Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK$91,000.

32. BANKING FACILITIES

As at 31st December 2007, the Group had aggregate banking facilities of approximately HK$115,898,000 (2006: HK$66,055,000). Bank facilities not utilised as at 31st December 2007 amounted to approximately HK$27,825,000 (2006: HK$20,639,000). These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group with an aggregate of carrying values of approximately HK$97,022,000 (2006: HK$120,136,000).

33. ACQUISITION OF A WHOLLY-OWED SUBSIDIARY

On 12th April 2006, the Group acquired the entire issued share capital of SCI, a company incorporated in Ontario, Canada, engaged in the design, development and marketing of home and automotive audio products. The acquired business contributed profit of approximately HK$5,254,000 to the Group for the period from 12th April 2006 to 31st December 2006. Details of net assets acquired and goodwill were as follows:

Details of net assets acquired and goodwill were as follows:

	HK$'000
Cash paid	26,177
Direct cost relating to the acquisition	1,554
Fair value of shares issued *(Note 24)*	1,980
Total purchase consideration	29,711
Fair value of net assets acquired – shown as below	(24,412)
Goodwill *(Note 19)*	5,299

The goodwill was attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of SCI.

The assets and liabilities arising from the acquisition were as follows:

	Acquiree's carrying amount and fair value HK$'000
Cash and short-term deposit	557
Trademark and patents *(Note 18)*	21,000
Trade receivables	19,129
Prepayments, deposits and other current assets	5,100
Inventories	5,835
Deferred tax assets	4,613
Property, plant and equipment	2,793
Bank borrowings	(9,235)
Trade payables	(15,613)
Accruals and other payables	(9,767)
Net assets acquired	24,412
Satisfied by :	
Total purchase consideration	29,711
Less : Fair value of shares issued *(Note 24)*	(1,980)
Cash and short-term deposit acquired	(557)
Net outflow of cash and cash equivalents in respect of acquisition of a subsidiary	27,174

If the acquisition had been completed on 1st January 2006, total group sales for the year would have been approximately HK$386,553,000, and profit for the period would have been approximately HK$9,417,000. The pro forma information was for illustrative purpose only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January 2006, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

34. COMMITMENTS

(a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred are as follows:

	2007 HK$'000	2006 HK$'000
Property, plant and equipment Contracted but not provided for	**15,639**	19,480

(b) Commitments under operating leases

At 31st December 2007, the Group had aggregate minimum lease payments under non-cancellable operating lease as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**1,043**	1,553
In the second to fifth year inclusive	**3,741**	200
Over five years	**–**	12
	4,784	1,765

Operating lease payments represent rentals payable by the Group for certain of its office premises and property, plant and equipment. Leases and rentals are negotiated and fixed for an average of 5 years.

35. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Sales and purchases

	2007 HK$'000	2006 HK$'000
– Sonavox Electronics (Suzhou Industrial Park) Company Limited (i and ii)		
– Sales	**984**	–
– Purchases	**19,231**	–
Asian Elite International Company Limited (i and ii)		
– Purchases	**10,256**	–

(b) Key management compensation

	2007 HK$'000	2006 HK$'000
Salaries and other short-term employee benefits	**2,057**	1,830

(c) Amounts due from related parties

	2007 HK$'000	2006 HK$'000
Trade receivables due from Asian Elite International Company Limited (i) *(Note 21)*	**172**	160
Due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, minority shareholder of Mainland China subsidiaries *(Note 22)*	**246**	878

Notes:

(i) Mr. Yang Tsu Ying and Mr. Yang Ching Yau have beneficial interests.

(ii) In the opinion of the directors, the above transactions with related companies are carried out in the ordinary course of business on terms as agreed with the related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31st December 2007

36. SHARE BASED COMPENSATION

The Group adopted a share option scheme which became effective on 8th July, 2002. Under which, share options are granted any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price of the granted options is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

At 31st December 2007, the number of shares of the Company in respect of which options had remained outstanding under the share option scheme of the Company was 12,000,000, representing 3.7% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Date of grant	Outstanding at 1/1/2006 '000	Granted during the year '000	Exercised/ lapsed during the year '000	Outstanding at 31/12/2006 and 31/12/2007 '000	Exercise share price HK$
Directors	28/6/2005	4,000	–	–	4,000	0.345
Employees	28/6/2005	8,000	–	–	8,000	0.345
		12,000	–	–	12,000	
Exercisable at the end of the year					12,000	

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise prices:

	Exercise price HK$ per share	Share options
Expire on 27th June 2015	0.345	12,000

No share options have been granted to the directors and employees during the year ended 31st December 2007.

37. RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme at 5% of the employees' earnings with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month and thereafter contributions are voluntary. During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to HK$12,000 (2006: HK$12,000).

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China at a rate of 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. For the year ended 31st December 2007, the aggregate amount of the Group's employer contributions was approximately HK$1,896,000 (2006: HK$1,304,000).

SCI does not provide any private retirement plan to its employees but it has to match employee contribution to the mandatory Canada Pension Plan (CPP), which is a national pension plan administered by Human Resources and Social Development Canada on behalf of employees in all provinces and territories except Quebec. The employees contribute to CPP according to the prescribed rate of the year. SCI matches the employee contribution, effectively doubling the contributions of the employees. SCI has no further obligation to the CPP other than matching the employee contribution. In 2007, the prescribed contribution rate is 4.9% of a salaried worker's employment income between approximately HK$26,000 and approximately HK$319,000. The total amount contributed by SCI to CPP during the year ended 31st December 2007 was approximately HK$489,000.

38. BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Non-current asset		
Investments in subsidiaries	**16,204**	16,204
Current assets		
Prepayments, deposits and other current assets	**122**	183
Due from subsidiaries	**84,659**	80,835
Bank balances and cash	**3,214**	3,320
	87,995	84,338
Current liabilities		
Accruals and other payables	**598**	598
Embedded derivative financial instrument	**6,593**	6,604
Bank borrowings – due within one year	**6,003**	–
	13,194	7,202
Net current assets	**74,801**	77,136
Total assets less current liabilities	**91,005**	93,340
Non-current liabilities		
Bank borrowings – due after one year	**2,382**	–
Convertible bonds	**36,109**	34,795
Net current assets	**38,491**	34,795
	52,514	58,545
Capital and reserves		
Share capital	**3,251**	3,251
Share premium	**27,682**	27,682
Share based payment reserve	**1,948**	1,948
Merger reserve	**19,550**	19,550
Accumulated profits	**83**	6,114
	52,514	58,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
For the year ended 31st December 2007

39. PRINCIPAL SUBSIDIARIES

The following is a list of the subsidiaries as at 31st December 2007:

Name	Place and date of incorporation and kind of legal entity	Principal activities	Issued/paid up capital	Interest held
Taraki Inc. (a)	British Virgin Islands, 6th September 1991, Limited liability company	Investment holding	US$2	100%
Taraki Services Company Limited	Hong Kong, 6th February 2002, Limited liability company	Provision of management services to group companies	HK$2	100%
Sonavox Electronics Company Limited	Samoa, Inactive 19th August 2002, limited liability company	Inactive	US$1	100%
Indigo Enterprise Inc.	Samoa, 19th December 2005, limited liability company	Investment holding	US$1	100%
Sonavox Canada Inc. (Formerly known as Indigo Manufacturing Inc.)	Canada, 1st April 1999, limited liability company	Design, development and marketing of home and automotive audio products	CAD504,103	100%
Suzhou Shangsheng Electrics Co. Ltd. (b)	Mainland China, 27th June 1992, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems for automobiles	US$5,000,000	51%
Suzhou Sonavox Acoustics Co. Ltd. (b)	Mainland China, 20th June 2000, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems for home theatres	US$2,500,000	51%
Suzhou Shangsheng Technology Co. Ltd. (b & c)	Mainland China, 23rd March 2006, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems	US$5,123,885	51%
Suzhou Hesheng Industrial Co., Ltd. (b & c)	Mainland China, 26th April 2006, Sino-foreign equity joint venture	Manufacture and sales of parts for loudspeaker systems	US$1,013,389	51%
Detroit Sonavox Inc.	U.S.A., 2nd January 2005, limited liability company	Provision of after-sales services	US$1	51%
Sonavox Europe GmbH	Germany, 9th August 2007, limited liability	Provision of after-sales services	EURO25,000	51%

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

(a) The shares of Taraki Inc. are held directly by the Company. The shares of other subsidiaries are held indirectly.

(b) Shangsheng Electrics, Shangsheng Enterprises , Sonavox Acoustics, Shangsheng Technology and Suzhou Hesheng are sino-foreign equity joint ventures established in Mainland China with an operating life of 50 years up to 2042, 2050, 2054 and 2054 respectively.

(c) Shangsheng Technology and Suzhou Hesheng were established in 2005 with registered capital of US$13,000,000 and US$5,000,000 respectively. As at 31st December 2007, the Group had outstanding commitments of approximately US$3,921,000 and US$2,050,000 respectively for capital contribution to these two subsidiaries.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Yang Tsu Ying – *Board Chairman*
Yang Ching Yau – *Chief Executive Officer*

Independent non-executive Directors

Yiu Chi Wah
Wong Kai Tung, Simon
Fan Chi Fai, Paul

COMPANY SECRETARY

Poon Lai Yin, Michael, *CPA (HKICPA), CPA (Aust.)*

QUALIFIED ACCOUNTANT

Poon Lai Yin, Michael, *CPA (HKICPA), CPA (Aust.)*

AUDIT COMMITTEE

Fan Chi Fai, Paul – *Committee Chairman*
Yiu Chi Wah
Wong Kai Tung, Simon

NOMINATION COMMITTEE

Yang Ching Yau – *Committee Chairman*
Yiu Chi Wah
Wong Kai Tung, Simon

REMUNERATION COMMITTEE

Yiu Chi Wah – *Committee Chairman*
Wong Kai Tung, Simon
Fan Chi Fai, Paul
Yang Ching Yau

AUTHORISED REPRESENTATIVES

Yang Ching Yau
Poon Lai Yin, Michael

REGISTERED OFFICE

Century Yard
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P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor
Kam Sang Building
No. 255-257 Des Voeux Road Central
Hong Kong

COMPLIANCE OFFICER

Yang Ching Yau

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1901-02
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Limited
Bank SinoPac
Hang Seng Bank Limited

STOCK CODE

8226

WEBSITE

www.sonavox.com.hk