SONAVOX

SONAVOX INTERNATIONAL HOLDINGS LIMITED

上 聲 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This document, 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 document 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 document misleading; and (3) all opinions expressed in this document 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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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

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COMPLIANCE OFFICER

Yang Ching Yau

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Cayman Islands

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Hong Kong

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Limited

STOCK CODE

8226

TO OUR SHAREHOLDERS

I am pleased to present the audited consolidated results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the year ended 31st December 2005.

Following the third year of Sonavox's listing on GEM, we continue our business strategies as planned before listing. Thanks to the continuous effort made by our senior management to enhance the research and development ("R&D"), to prudently expand production capabilities and to explore new business opportunities during the year 2005.

With increasing orders placed from the customers in the U.S., we are very pleased that our development strategy for overseas markets is reaping fruitful results and increased the sales by 29% from approximately HK$123 million to HK$159 million in the overseas market. We are confident that contribution from our overseas markets will continue to grow and contribute a significant portion to our total turnover.

Sonavox has begun to cooperate with U.S. customers when they entered into the Mainland China market. We have maintained good relationship with them and hence sustained our position as qualified export supplier. After all the working conditions assessment by Ford Motors Company, one of the leading automakers in the world, we have been granted Ford Q1 in the year 2005. The whole assessment processes of obtaining Ford Q1 has proven to be a huge benefit for Sonavox, helping us to identify the areas where we could improve and also obtained a better understanding of Ford Motor's quality and management requirements.

As for the Mainland China market, the growth was slowed down by factors including the surge in fuel price and the tightened car loan policy together with the continuous downward adjustment in automobile market prices further aggravated consumer's wait-and-see attitude. However, with our established market presence and position in the Mainland China market, we successfully maintained our market share in the year 2005.

Business performance in the home theatre sector remained stable. Sonavox, being an OEM/ODM manufacturer, we are not only focusing on the enhancement of production capabilities, but also continuously adding functions and maintaining quality consistency to loudspeaker systems for home audio products. To further engage in this strategy, Sonavox has proposed to acquire the entire issued share capital of Indigo Manufacturing Inc. ("Indigo") in January 2006, an audio manufacturer with patented technology that already has a strong base of customers using its patented amplifier technology – BASH® for audio applications. We see synergy on this proposed acquisition, as the synergistic effect of combing Sonavox's expertise on production capabilities and Indigo's strong R&D will create value-added services for our existing and potential customers so that they can be more competitive in serving end users in the consumer electronics markets.

CHAIRMAN'S STATEMENT

PROSPECTS

Looking into 2006, business expansion in overseas markets will be the Group's future growth driver. Our consistent quality and R&D improvement have boosted our confidence in expanding overseas in the future. Additionally, our success in cultivating business relations with those automobile giants like Ford Motor Company in the U.S., also demonstrated our total competence in providing top quality and high performance loudspeaker systems to internationally renowned brand names.

As living standard continued to improve and the selling price of automobiles in Mainland China to become stable, the growth in demand for automobiles is expected to gradually accelerate in the year 2006. We are very confident of further expanding the market share of our top quality and high performance loudspeaker systems for automobiles in the Mainland China and also maintaining our leading position in the industry.

To meet the foreseeable sales order and future increase in demand for loudspeaker systems, the Group will continuous to expand its production capabilities in Suzhou for the next twelve months.

Business performance of the home theatre sector will continue to provide stable revenue for the Group's strategic developments, reinforcing its capacities for business growth. Further, with the synergistic effect from the acquisition of Indigo with its advanced audio amplifier technology, an excellent opportunity will be created for the Group to provide a "one-stop" range of home audio technology solution for its existing and potential customers in the foreseeable future.

With our strong foundation, we are confident of capturing the abundant opportunities in year 2006. I am highly encouraged that with our persistence pursuit of quality and attention to detail, we are well positioned for achieving even better results and creating value for our shareholders.

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. We are determined to position Sonavox as "one-stop" audio solution provider and bring in stable returns for our shareholders.

Yang Tsu Ying
Chairman

Hong Kong, [21st] March 2006

FINANCIAL REVIEW

The Group's financial highlights are as follows:

	2005	2004	(%) Change between 2004 and 2005
In HK$'000			
Turnover	**234,288**	205,552	14%
Gross profit	**44,602**	53,040	–16%
Profit from operations	**12,283**	33,264	–63%
Earnings before Interest, Tax, Depreciation and Amortization ("EBITA")	**19,928**	41,134	–52%
Profit attributable to equity holders	**23**	10,086	–100%
Total assets	**228,602**	209,900	9%
Total assets less current liabilities	**134,890**	126,398	7%
Total equity	**132,998**	124,526	7%
Business performance ratios:			
Return on total assets (%)	**5%**	16%	–69%
Gross profit margin (%)	**19%**	26%	–27%
Current ratio	**1.28**	1.59	–19%
Quick ratio	**1.06**	1.32	–20%
Gearing ratio	**0.24**	0.23	4%

Definitions for business performance ratios:

Return on total assets	$\frac{\text{Profit from operations}}{\text{Total assets}}$	x 100%
Gross profit margin	$\frac{\text{Gross profit}}{\text{Turnover}}$	x 100%
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	
Quick ratio	$\frac{\text{Current assets excluding inventories}}{\text{Current liabilities}}$	
Gearing ratio	$\frac{\text{Short-term bank loans}}{\text{Total equity}}$	

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Triggered by the growth in the U.S. market, the Group achieved a turnover of approximately HK$234,288,000, representing a jump of 14% for the year ended 31st December 2005. However, the Group's gross profit margin decreased from approximately 26% to 19% due to the sharp increase in cost of manufacturing overhead and raw materials, especially that of plastic and metal parts which slightly pushed up the Group's cost of production. Facing a very difficult year for automobiles industry in Mainland China, average selling price of loudspeaker systems for automobiles in Mainland China was reduced and high manufacturing costs, hit the gross margin of the Group.

During the year, revenue from overseas markets surged 29% from approximately HK$123,213,000 to approximately HK$158,894,000. The growth was mainly attributable to the increased orders placed by Japanese customers and the U.S. customers. Sales from the U.S. and Japan increased approximately 40% and 6% respectively over the previous year.

The Group's selling and distribution expenses increased approximately 33%. The increase was mainly attributable to the expanding markets in Germany and in the U.S. during the year, leading to commission fee paid to sales agents in these countries. The Group's administrative expenses increased from approximately HK$11 million to approximately HK$20 million in the year 2005. The increase was mainly attributable to the newly adopted HKFRS 2 "Share-based Payment". As a result of this newly adopted accounting standard, share-based payment, a non-cash transaction, of approximately HK$1.9 million (2004: Nil) was recognized. Administrative expenses further increased by frequent travel to develop overseas customers' relationship and provision for impairment loss of certain long outstanding trade receivables of approximately HK$2.8 million was made.

Profit attributable to equity holders declined from approximately HK$10,086,000 to HK$23,000. The substantial drop in profitability has mainly been attributable to the recognition of share-based payment, provision for impairment loss against one of the Group's overseas customers and higher commission fee paid to overseas agents.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

During 2005, the Group's major business operations took place in Mainland China, financed mainly by the cash revenue generated from operating activities and partly by short-term bank loans. As at 31st December 2005, the Group had cash and bank deposits of approximately HK$47,460,000 (2004: HK$48,493,000). During the year, the Group's cashflow generated from operations increased by 50% from approximately HK$28,845,000 to HK$43,270,000. The Group maintained a stable business performance in liquidity with a current ratio of approximately 1.28 and a gearing ratio (short-term bank loans to total equity) of approximately 0.24 as at 31st December 2005, compared with approximately 1.59 and approximately 0.23 respectively as at 31st December 2004. The Group had short-term bank loans of approximately HK$32,037,000 bearing interest rates ranging from 4.96% to 5.58% 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 centralised and carried out in Mainland China and Hong Kong. Currently, cash and bank deposits are placed in interest-bearing bank accounts denominated in Hong Kong dollars, Renminbi ("RMB") and U.S. dollars ("USD"). The Group's liquidity and financial arrangements are reviewed regularly by the Board and senior management.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31st December 2005, the Group has capital commitment of approximately HK$20,964,000 in respect of the acquisition of property, plant and equipment and operating lease commitment of approximately HK$28,000.

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established with registered capital of approximately HK$101,400,000 (equivalent to US$13,000,000) and approximately HK$39,000,000 (equivalent to US$5,000,000) respectively. As at 31st December 2005, the Group had outstanding commitments of approximately HK$30,662,000 (equivalent to US$3,931,000) and approximately HK$19,890,000 (equivalent to US$2,550,000) respectively for capital contribution to these two subsidiaries.

As at 31st December 2005, the Group did not have any significant contingent liabilities.

MATERIAL ACQUISITION/DISPOSALS AND SIGNIFICANT INVESTMENT

Subsequent to the balance sheet date on 27th January 2006, the Company entered into a conditional sale and purchase agreement with all shareholders of Indigo Manufacturing Inc. ("Vendors"), whereby the Vendors agreed to sell and the Company agreed to purchase the entire issued shares of Indigo Manufacturing Inc. at a consideration of approximately HK$34,980,000 (equivalent to approximately CAD5,300,000). The consideration will be settled as to approximately HK$1,980,000 (equivalent to approximately CAD300,000) by way of allotment and issue of 5,089,974 new ordinary shares by the Company at HK$0.389 per share to the Vendors and the balance of up to approximately HK$33,000,000 (equivalent to CAD5,000,000) by cash. The transaction is expected to be completed by 10th April 2006. The transaction was more particularly described in an announcement dated 16th February 2006.

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

MAJOR TRANSACTIONS

Subsequent to the balance sheet date on 27th January 2006, the Company entered into a placing agreement with MasterLink Securities (Hong Kong) Corporation Limited, a company incorporated in Hong Kong, for the placing of the Company's convertible bonds up to a maximum principal amount of approximately HK$38,750,000 (equivalent to USD 5,000,000). The bonds can be converted up to an aggregate of 96,875,000 ordinary shares of the Company at HK$0.40 each. As of the date of approval of these financial statements, the placement has not been completed.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Most of the Group's bank borrowings were denominated in RMB, whilst receipts and expenditures of the Group were denominated in RMB, Hong Kong dollars, USD and Euros during the year. The Group is subject to foreign exchange exposure in RMB against USD and Euros. However, the Group was able to partially mitigate the foreign exchange impact by entering sale transaction with overseas customers denominated in RMB. 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$52,800,000 for overdrafts and loan financing as at 31st December 2005. Unused bank facilities as at the same date amounted to approximately HK$20,763,000. These facilities were secured by certain land use rights and buildings of the Group with the carrying value of approximately HK$11,786,000 and HK$26,467,000 as at 31st December 2005, respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sale of loudspeaker systems for automobiles remained as the Group's major revenue stream, accounted for approximately 82% of its total turnover. Although the Group was affected by the severe competition in Mainland China automobile market and forced the Group to reduce selling price for sale of automobile loudspeaker systems, the Group was still able to achieve a slightly growth of approximately 10% in its automobile loudspeaker systems sales with its successful market diversification strategy.

The Directors and senior management believe that providing timely services to the customers and further explore business development in the overseas markets is important to the success of the Group. In line with this objective, the Group established Detroit Sonavox Inc., a wholly-owned subsidiary in the U.S., in January 2005. This new subsidiary in Detroit consists of trained staff teams who will provide automobile manufacturers with after-sales support services and engineering support services in the U.S. The Directors and senior management further believe that the Group will demonstrate continued improvement in serving this market in the next year and will continue be the Group's objective to increase market share by providing top quality loudspeaker systems for overseas automobile manufacturers with competitive price.

Demand from audio-visual products, such as DVD, iPod and MP3, has driven the demand for home theatres loudspeakers. Delivering top quality and high performance loudspeaker to the Group's customers and strengthening relationships with key audio players in the overseas markets, in a strategy to become their business partner and supplier, further enhanced the Group's sales. As a result, sale of home theatres loudspeakers enjoyed another impressive year of growth, with sales increasing from approximately HK$35 million to approximately HK$50 million, representing a growth of 43%.

To further achieve the benefit from vertical integration and meet the future sale orders from overseas customers, the Group has completed the first-stage of expansion in Suzhou. The Directors and senior management believe that this newly established plant will substantially expand the Group's production capabilities to meet foreseeable sales and to improve business synergies for the Group in 2006.

NEW AWARDS

The Group has been awarded Ford Q1 Preferred Quality Status (the "Ford Q1") by Ford Motor Company. The Ford Q1 recognition was based on an assessment of the Group's processes for controlling quality, ongoing monitoring of quality performance and continuous improvement efforts. In addition, the Group's extremely low defect rate, high quality of service delivery and quick response time were key factors. Of automobiles loudspeaker providers for Ford Motor Company, the Group was the first Chinese automobiles loudspeakers provider to achieve the Ford Q1.

The Group has been awarded ISO/TS 16949: 2002 by TÜV Management Service GmbH in the recognition of the Group's application of quality management system for design, production and sales of loudspeakers.

In May 2005, the development of the loudspeaker systems for the Passat automobile model was selected by Ministry of Science and Technology of the People's Republic of China as the China Torch Program. As a result, the local government granted a subsidy to the Group.

NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31st December 2004 and 2005 is set out below:

	2005	2004
Management and administration	**27**	50
Sales and marketing	**23**	24
Manufacturing and operations	**1,035**	1,119
Research and development	**52**	51
Quality assurance and quality control	**157**	130
Finance and accounting	**12**	12
Total	**1,306**	1,386

REMUNERATION OF EMPLOYEES AND POLICIES

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

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

Total remuneration incurred for the year ended 31st December 2005 increased to approximately HK$30,100,000 (2004: HK$20,115,000) due to increase in pension costs for workers and increase in wages and salaries for managerial staff and quality control staff during the year. The newly adopted accounting standard, share-based payment of approximately HK$1.9 million (2004: Nil) further increased the amount of total remuneration. The Directors had received remuneration of approximately HK$1,513,000 (2004: HK$955,000) during the year ended 31st December 2005.

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 45 different training programmes to its management staff to sharpen their management skills and techniques.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS

Looking ahead, the Directors are highly confident of the Group's future developments. Given the Group's success in cultivating business relations with the world's leading automobile and audio manufacturers, the Directors are very optimistic about future business co-operations with other international automobile and audio manufacturers. The Group's success in developing the U.S. market paving the way for its future business advancements in European and Japanese markets. Sales orders from other overseas markets will increase stably as the leading automobile manufacturers who approved the quality of loudspeakers and placed trial orders before will increase their orders this year. Additionally, the Group has successfully obtained quality approval from one of the leading automobile manufacturers in Germany and their response has been positive.

Over the past years, the growth rate of automobiles sales was slowed down due to the Chinese government pressed the local banks to restrict auto loans and took austerity measures. According to China Association of Automobile Manufacturers, China's auto industry is expected to grow at a moderate pace in 2006 and Mainland China auto sales are estimated to surge as high as 9 million units by the end of 2010, compared with a projected 5.8 million units for 2005. Under this current upward trend of automobile industry in Mainland China for the year 2006 and taking into account the expanding production capabilities of the Group, the Directors expect the Group will have significant increase in turnover and profit from operation in the year 2006.

To cope with the changing role of Mainland China in becoming one of the major automobiles supply in the world following the Group's association with those renowned automobile manufacturers in overseas markets, the Group has completed the first-stage of new production facilities in Suzhou, Mainland China, to get itself prepared for the anticipated growth in the sale of loudspeaker systems for overseas business. This new facilities will operate in April 2006.

Riding on the Group's competence in providing top quality and reliable loudspeaker systems, more powerful performance with better quality loudspeaker systems will be developed in the coming year. Besides, an effective cost control systems will also be implemented in order to maintain a competitive profit margin.

The Group will also consider possible strategic alliances through acquisition for synergistic benefits. The Directors strongly believe that alliances with business partners, the Group will be able to capture effectively the immense opportunities ahead.

Although the Group is facing a challenging year of 2006, the Directors believe that reasonable returns will still be expected from the Group's persistent strive for consistent high quality loudspeakers and advanced technical expertise together with its strong production capabilities in Mainland China.

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yang Tsu Ying, aged 71, is the chairman of the company and one of the founders of the Group. He has over 25 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 36, is the chief executive officer and one of the founders of the Group. He has over 11 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 41, is an independent non-executive director. Mr. Yiu has over 10 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 38, is an independent non-executive director. Mr. Wong is a vice president of DBS Bank Limited, Hong Kong's Communications, Telecom and Technology Department. Mr. Wong had worked for VC CEF Capital Limited and Deutsche Bank in the investment banking service for the Greater China area. Mr. Wong has over 12 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 44, is a qualified accountant. Mr. Fan is a member of Institute of Chartered Accountants in England and Wales and works as Finance Director of 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. He was appointed as an independent non-executive director of the Group in September 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhou Jian Ming, aged 47, is the general manager of the Group. He is responsible for the general administration of the Group. He obtained a master's degree in business administration from Nanjing University, the PRC. He has extensive experience in enterprise management and has over 10 years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無線電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in the PRC and overseas.

Mr. Pan Hui Hua, aged 50, is the production manager and assistant general manager of the Group. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over 15 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. Poon Lai Yin, Michael, aged 33, is the chief financial officer and the company secretary 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 gained more than six 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.

FINANCIAL SUMMARY

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

1 CONSOLIDATED INCOME STATEMENTS

	2000 HK$'000	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	**2005** **HK$'000**
Sales	50,913	60,498	76,656	115,348	205,552	**234,288**
Cost of sales	(35,373)	(42,303)	(50,782)	(81,409)	(152,512)	**(189,686)**
Gross profit	15,540	18,195	25,874	33,939	53,040	**44,602**
Other gains-net	446	735	244	231	266	**567**
Selling and marketing costs	(1,298)	(1,569)	(4,123)	(4,922)	(9,440)	**(12,591)**
Administrative expenses	(3,101)	(3,967)	(6,867)	(11,361)	(10,602)	**(20,295)**
Operating profit	11,587	13,394	15,128	17,887	33,264	**12,283**
Finance costs	(518)	(535)	(536)	(684)	(1,291)	**(1,548)**
Profit before income tax	11,069	12,859	14,592	17,203	31,973	**10,735**
Income tax expense	(309)	(1,400)	(1,402)	(1,688)	(9,360)	**(5,920)**
Profit for the year	10,760	11,459	13,190	15,515	22,613	**4,815**
Minority interests	(5,478)	(5,410)	(7,326)	(9,152)	(12,527)	**(4,792)**
Profit attributable to equity holders of the Company	5,282	6,049	5,864	6,363	10,086	**23**

2 CONSOLIDATED BALANCE SHEETS

	2000 HK$'000	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 (Restated) HK$'000	**2005** **HK$'000**
Total assets	101,567	76,672	132,602	154,834	209,900	**228,602**
Total liabilities	(51,976)	(33,850)	(33,359)	(50,293)	(85,374)	**(95,604)**
Total assets less total liabilities	49,591	42,822	99,243	104,541	124,526	**132,998**
Minority interests	(38,198)	(25,380)	(35,841)	(37,369)	(53,432)	**(58,250)**
Net assets	11,393	17,442	63,402	67,172	71,094	**74,748**

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 31st December 2005 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 new Code on Corporate Governance Practices of the GEM Listing Rules.

Below are the corporate governance practices adopted by the Group.

On 28th June 2005, pursuant to a resolution in writing passed by the Directors, 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 and Futures 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 31st December 2005, 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 the performance of the Company, and oversight of senior management. The senior management is responsible for the day-to-day operations of the Group under the leadership of the CEO, Mr. Yang Ching Yau.

As at 31st December 2005, the Board comprised two executive Directors, including Chairman and CEO, and three independent non-executive Directors. Biographical details of the Directors referred to page 11 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 actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board, under the Chairman's leadership, 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.

CORPORATE GOVERNANCE REPORT

The Board held four regular meetings in 2005 and a special meeting in respect with the acquisition of entire issued share capital of Indigo Manufacturing Inc., and proposed the placing of convertible bonds subsequent to the accounting period up to the date of publication of this annual report. All Directors present in all meetings.

	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%

All independent non-executive Directors are engaged on a service contract for a twelve-month period. 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 will retire from office save for any chairman and CEO. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire will 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 31st December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	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	–	260	–	–	325	–	–	585
Mr. Yang Ching Yau	–	260	–	–	325	–	–	585
Mr. Fan Chi Fai, Paul	109	–	–	–	–	–	–	109
Mr. Yiu Chi Wah	117	–	–	–	–	–	–	117
Mr. Wong Kai Tung, Simon	117	–	–	–	–	–	–	117

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 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*

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.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises two 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.

Under its terms of reference for Audit Committee passed under a Directors' resolution dated 28th June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary quarterly 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 2005 and one meeting to date in 2006.

Name of member	**Attended/Eligible to attend**
Yiu Chi Wah	100%
Wong Kai Tung, Simon	100%
Fan Chi Fai, Paul	100%

Financial Statements

The Audit Committee met and held discussions with the CEO and CFO of the Group on the preliminary quarterly results, interim results and annual financial statements. 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, PricewaterhouseCoopers ("PwC"), on the scope and outcome of annual audit of the consolidated financial statements.

EXTERNAL AUDITORS AND REMUNERATION

The Audit Committee reviews each year a letter from PwC confirming their independence and objectivity and holds meetings with PwC to discuss the scope of their audit.

The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors. The Group only engaged PwC for assurance services in connection with the audit of the Group's consolidated financial statements as at and for the year ended 31st December 2005 with annual auditors' remuneration fee of HK$410,000. No other non-audit related services were performed by PwC.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 26.

By Order of the Board

Yang Ching Yau
Chief Executive Officer

Hong Kong, 21st March 2006

The Directors have the pleasure of presenting the annual report together with the audited accounts 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 2005.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 22nd October 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group after completion of the Reorganisation on 8th July 2002.

The shares of the Company have been listed on GEM since 19th July 2002.

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 5 to the consolidated financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, the five largest customers accounted for approximately 72% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 25% of the Group's total purchases. The largest customer of the Group accounted for approximately 43% of the Group's total turnover while the largest supplier accounted for approximately 8% 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 2005 are set out in the consolidated income statement account on page 27.

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 21 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2005 amounted to approximately HK$57,465,000 (2004: HK$62,348,000).

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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 16 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 14 to the consolidated financial statements.

COMMITMENTS

Particulars of commitments as at 31st December 2005 are set out in Note 28 to the consolidated financial statements.

RETIREMENT PLANS

Details of the retirement plans are set out in Note 31 to the consolidated financial statements.

CONNECTED TRANSACTIONS

During the year ended 31st December 2005, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("the GEM Listing Rules").

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, will retire from office and, will be eligible to offer himself for re-election at the forthcoming annual general meeting of the Company.

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st July 2002, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive directors is entitled to a basic salary subject to an annual increment after 31st March 2006 at the discretion of the audit committee of the Company of not more than 20% of the annual salary immediately prior to such increase. In addition, the executive directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive directors for any financial year of the Company may not exceed 15% of the audited consolidated profit attributable to the equity holders of the Company (after payment of such management bonuses) in respect of that financial year 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 2005, the interests and short positions of the Directors and the 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 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 OF THE COMPANY

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	75%
Mr. Yang Ching Yau *(Note)*	Corporate	Interest of a controlled corporation	240,000,000	75%

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 Shares	Percentage of interest
Mr. Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.625%
Mr. Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.625%

Save as disclosed in this paragraph, as at 31st December 2005, none of the Directors nor the 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

So far as was known to any director of the Company, as at 31st December 2005, 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 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 or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group 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	75%
Silver Way Limited *(Note 1)*	Interest of a controlled corporation	240,000,000	75%
HSBC International Trustee Limited *(Note 1)*	Trustee	240,000,000	75%
Mr. Yang Tsu Ying *(Note 1)*	Beneficiary of a trust	240,000,000	75%
Mr. Yang Ching Yau *(Note 1)*	Beneficiary of a trust	240,000,000	75%
Madam Yang Chuang Ching-Hsiu *(Note 2)*	Interest of spouse	240,000,000	75%
Ms. Helen Lee *(Note 3)*	Interest of spouse	240,000,000	75%

(B) LONG POSITIONS IN THE SHARES OF EQUITY DERIVATIVES OF THE COMPANY

Name	Capacity	Description of equity derivatives	Number of Shares	Percentage of interest
Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.625%
Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.625%
Yang Chuang Ching-Hsiu *(Note 2)*	Interest of spouse	Share option	2,000,000	0.625%
Helen Lee *(Note 3)*	Interest of spouse	Share option	2,000,000	0.625%

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 all 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 all 2,000,000 share options in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 31st December 2005, 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 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, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

The Group's ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sales of loudspeakers used in automobiles, 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 June 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years commencing on the effective date.

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The offer of a grant of the option may be accepted within 21 days from the date of the offer. The exercise period of the share option granted is determinable by the Board of Directors, and in any event not later than 10 years from the date of grant of the option.

The exercise price of the share option is determinable by the Board of Directors, but shall not be less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share.

REPORT OF THE DIRECTORS

Pursuant to a Directors' resolution passed on 28th June 2005, the following share options were outstanding under the Scheme as at 31st December 2005:

Name of grantees (relationships with the Group)	Date of grant	Subscription price HK$	Number of shares granted	Approximate % to the total issued capital	Number of shares exercised/lapsed	Number of shares outstanding at 31/12/2005
Mr. Yang Tsu Ying (Chairman of the Group)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000
Mr. Yang Ching Yau (Chief Executive Officer of the Group)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000
Mr. Zhou Jian Ming (General manager of the Group)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000
Mr. Poon Lai Yin, Michael (Chief Financial Officer of the Group)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000
Mr. Lin Chien Hung (Manager of product development)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000
Mr. Dennis Crosson (Manager of business development)	28th June 2005	0.345	2,000,000	0.625	–	2,000,000

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the 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 Company. 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 21st March 2006, the financial results and the financial position and major accounting issues of the Group as at and for the year ended 31st December 2005 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*

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 ended 31st December 2005, the Company has compiled with the new Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board,

Yang Tsu Ying
Chairman

Hong Kong, 21st March 2006

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

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

We have audited the accounts on pages 27 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

BASIS OF OPINION

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21st March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Sales	5	**234,288**	205,552
Cost of goods sold		**(189,686)**	(152,512)
Gross profit		**44,602**	53,040
Other gains – net	5	**567**	266
Selling and marketing costs		**(12,591)**	(9,440)
Administrative expenses		**(20,295)**	(10,602)
Operating profit	6	**12,283**	33,264
Finance costs	7	**(1,548)**	(1,291)
Profit before income tax		**10,735**	31,973
Income tax expense	8	**(5,920)**	(9,360)
Profit for the year		**4,815**	22,613
Attributable to:			
Equity holders of the Company		**23**	10,086
Minority interests		**4,792**	12,527
		4,815	22,613
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic	10	**HK cent 0.01**	HK cent 3.15
– Diluted	10	**HK cent 0.01**	N/A
Dividends	11	**–**	512

The notes on pages 32 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**93,366**	61,209
Land use rights	15	**11,786**	12,034
Deferred income tax assets	23	**3,681**	4,075
Total non-current assets		**108,833**	77,318
Current assets			
Inventories	17	**20,295**	22,722
Trade and note receivables	18	**45,216**	56,497
Prepayments, deposits and other current assets		**4,669**	3,176
Due from minority shareholders of PRC subsidiaries	19	**1,613**	1,178
Due from a related company	29	**516**	516
Bank balances and cash	20	**47,460**	48,493
Total current assets		**119,769**	132,582
Total assets		**228,602**	209,900
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**3,200**	3,200
Reserves	22	**71,548**	67,894
		74,748	71,094
Minority interests		**58,250**	53,432
Total equity		**132,998**	124,526
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	23	**1,892**	1,872
Current liabilities			
Trade and note payables	24	**46,767**	40,446
Accruals and other payables		**9,842**	7,338
Short-term bank loans	25	**32,037**	28,290
Taxation payable		**5,066**	7,428
Total current liabilities		**93,712**	83,502
Total liabilities		**95,604**	85,374
Total equity and liabilities		**228,602**	209,900
Net current assets		**26,057**	49,080
Total assets less current liabilities		**134,890**	126,398

YANG TSU YING
Chairman

YANG CHING YAU
Director

The notes on pages 32 to 62 are an integral part of these consolidated financial statements.

BALANCE SHEET
As at 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investment in subsidiaries	16	57,330	53,301
Current assets			
Prepayments, deposits and other current assets		451	295
Due from a related company	29	516	516
Bank balances and cash	20	4,786	11,960
Total current assets		5,753	12,771
Total assets		63,083	66,072
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	3,200	3,200
Reserves	22	59,413	62,348
Total equity		62,613	65,548
LIABILITIES			
Current liabilities			
Accruals and other payables		470	524
Total equity and liabilities		63,083	66,072
Net current assets		5,283	12,247
Total assets less current liabilities		62,613	65,548

YANG TSU YING
Chairman

YANG CHING YAU
Director

The notes on pages 32 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Attributable to equity holders of the Company				
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1st January 2004	3,200	41,347	22,625	37,369	104,541
Profit for the year	–	–	10,086	12,527	22,613
Dividends paid	–	(2,912)	(512)	–	(3,424)
Dividends paid by a subsidiary to minority interests	–	–	–	(9,242)	(9,242)
Transfer to statutory reserves	–	753	(753)	–	–
Surplus on revaluation reserve	–	75	–	72	147
Recognition of deferred tax liabilities	–	(20)	–	(18)	(38)
Capital injection by minority interests	–	–	–	15,348	15,348
Translation adjustments	–	(50)	–	–	(50)
Balance as at 31st December 2004 – as previously reported	3,200	39,193	31,446	56,056	129,895
Effect on changes of accounting policies (Note (2.1))	–	(2,745)	–	(2,624)	(5,369)
Balance at 31st December 2004 – as restated	3,200	36,448	31,446	53,432	124,526
Profit for the year	–	–	23	4,792	4,815
Transfer to statutory reserves	–	856	(856)	–	–
Dividends paid by a subsidiary to minority interests	–	–	–	(12,749)	(12,749)
Surplus on revaluation reserve	–	39	–	36	75
Recognition of deferred tax liabilities	–	(10)	–	(10)	(20)
Share-based payment	–	1,948	–	–	1,948
Capital injection by minority interests	–	–	–	12,749	12,749
Translation adjustments	–	1,654	–	–	1,654
Balance at 31st December 2005	**3,200**	**40,935**	**30,613**	**58,250**	**132,998**

The notes on pages 32 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Net cash inflow generated from operations	26	**43,270**	28,845
Interest paid		**(1,548)**	(1,291)
Mainland China enterprise income tax paid		**(8,205)**	(3,768)
Net cash inflow from operating activities		**33,517**	23,786
Investing activities			
Acquisition of property, plant and equipment and land use rights		**(38,029)**	(19,627)
Proceeds from disposal of property, plant and equipment		**53**	19
Interest received		**114**	65
Net cash used in investing activities		**(37,862)**	(19,543)
Net cash (outflow)/inflow before financing		**(4,345)**	4,243
Financing			
New bank loans		**65,396**	39,417
Repayment of short-term bank loans		**(62,159)**	(23,952)
Capital injection from minority shareholders of PRC subsidiaries		**12,749**	5,756
Increase in amounts due from minority shareholders of PRC subsidiaries		**(435)**	(2,352)
Dividends paid		**–**	(3,424)
Dividends paid to minority shareholders of PRC subsidiaries		**(12,749)**	(9,242)
Net cash inflow from financing		**2,802**	6,203
(Decrease)/increase in cash and cash equivalents		**(1,543)**	10,446
Cash and cash equivalents at 1st January		**48,493**	38,097
Effect of foreign exchange rate changes		**510**	(50)
Cash and cash equivalents at 31st December	20	**47,460**	48,493

The notes on pages 32 to 62 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st December 2005

1. GENERAL INFORMATION

Sonavox International Holdings Limited (the "Company") and its subsidiaries (together 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 its registered office is Unit 1702, 17th Floor, Podium Plaza, No. 5 Hanoi Road, Tsimshatsui, Kowloon, Hong Kong.

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.

These consolidated financial statements have been approved for issue by the Board of Directors on 21st March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

The adoption of new/revised HKFRS (Continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 32, 33, 36 and 39 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests.

– HKASs 2, 7, 8, 10, 16, 23, 27, 32, 33, 36 and 39 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at fair value less accumulated depreciation and accumulated impairment.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2.12).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than HKFRS 2, under which, only retrospective application for all equity instruments granted after 7th November 2002 and had not fully vested at 1st January 2005.

The adoption of revised HKAS 17 resulted in:

	2005	2004
	HK$'000	HK$'000
Decrease in property, plant and equipment	**19,368**	9,430
Increase in land use rights	**12,034**	2,057
Decrease in revaluation reserves	**2,731**	2,745

There was no impact on opening retained earnings at 1st January 2004 as a result of the adoption of HKFRS 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 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, fixed assets, 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 fixed assets, 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.

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operation, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

2.5 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 depreciation. 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognized 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 income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Construction in progress is stated at cost. 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 fixed assets 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	10%
Leasehold improvements	5 years	10%
Machinery	5-10 years	10%
Furniture and equipment	5 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.

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 (Note 2.6).

Gain and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortization, 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 amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 INVENTORIES

Inventories are stated at the lower of cost and net realizable 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). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy or financial reorganization, and default or delinquency in payment are considered indicators that trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of liability for at least 12 months after the balance sheet date.

2.12 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 EMPLOYEE BENEFITS

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized 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 recognized until the time of leave.

(b) Profit sharing and bonus plans

The Group recognizes 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 recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) 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.

(d) 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 recognized 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 recognizes the impact of the revision of original estimates, if any, in the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services 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 recognized as follows:

(a) Sales of goods

Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized 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 recognized using the original effective interest rate.

2.15 GOVERNMENT GRANT

Grants from the government are recognized 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.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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

2.16 OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.17 RESEARCH AND DEVELOPMENT COST

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be successful considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

2.18 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 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 Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and investment of excess liquidity.

(a) Market risk

(1) Foreign exchange risk

The Group principally operates in Mainland China and is exposed to foreign exchange risk arising mainly from future commercial transactions primarily with respect to Renminbi.

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 is managed primarily through borrowings denominated in the relevant foreign currencies.

(2) Price risk

The Group is not exposed to equity securities price risk or commodity price risk as it does not held 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

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group Finance Department aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 FAIR VALUE ESTIMATION

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

4.1 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.

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 lifespan 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.

4.2 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 in the income statement 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.

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5 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:

	2005 HK$'000	2004 HK$'000
Turnover		
Manufacture and sales of loudspeaker systems (a)	**234,288**	205,552
Other gains – net		
Interest income	**114**	65
Subsidy income (b)	**413**	–
Others	**40**	201
	567	266
Total revenues	**234,855**	205,818

Notes:

(a) Approximately 73% of the Group's turnover for the year ended 31st December 2005 (2004: 67%) 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 2005.

The Group is organized on a world wide basis with one business segment in the People's Republic of China ("Mainland China"), Japan, the United States of America ("U.S.A.") and Europe. Accordingly, the Directors consider there is one business segment and five geographical segments.

	2005					
	Hong Kong HK$'000	Mainland China HK$'000	Japan HK$'000	U.S.A. HK$'000	Europe HK$'000	Group HK$'000
Turnover:						
External sales	–	75,394	18,237	136,485	4,172	234,288
Segment result	(4,956)	5,365	1,298	9,712	297	11,716
Other income						567
Operating profit						12,283
Finance costs						(1,548)
Profit before income tax						10,735
Income tax expense						(5,920)
Profit for the year						4,815
Minority interests						(4,792)
Profit attributable to equity holders of the Company						23

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2005					
	Hong Kong HK$'000	**Mainland China HK$'000**	**Japan HK$'000**	**U.S.A. HK$'000**	**Europe HK$'000**	**Group HK$'000**
Segment assets	**5,901**	**195,145**	**875**	**21,044**	**1,956**	**224,921**
Unallocated assets						**3,681**
Total assets	**5,901**	**195,145**	**875**	**21,044**	**1,956**	**228,602**
Segment liabilities	**470**	**88,176**	**–**	**–**	**–**	**88,646**
Unallocated liabilities						**6,958**
Total liabilities	**470**	**88,176**	**–**	**–**	**–**	**95,604**
Capital expenditure	**–**	**38,029**	**–**	**–**	**–**	**38,029**
Depreciation and amortisation	**–**	**7,645**	**–**	**–**	**–**	**7,645**
Provision for impairment loss of trade receivables	**–**	**1,348**	**–**	**86**	**1,316**	**2,750**

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, deferred taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 14) and land use rights (Note 15).

	2004					
	Hong Kong HK$'000	Mainland China HK$'000	Japan HK$'000	U.S.A. HK$'000	Europe HK$'000	Group HK$'000
Turnover:						
External sales	–	82,339	17,167	97,542	8,504	205,552
Segment result	(2,954)	14,401	3,003	17,061	1,487	32,998
Unallocated income						266
Operating profit						33,264
Finance costs						(1,291)
Profit before income tax						31,973
Income tax expense						(9,360)
Profit for the year						22,613
Minority interests						(12,527)
Profit attributable to equity holders of the Company						10,086

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2004					
	Hong Kong HK$'000	Mainland China HK$'000	Japan HK$'000	U.S.A. HK$'000	Europe HK$'000	Group HK$'000 (Restated)
Segment assets	12,920	162,279	1,268	28,085	1,273	205,825
Unallocated assets						4,075
Total assets	12,920	162,279	1,268	28,085	1,273	209,900
Segment liabilities	566	75,508	–	–	–	76,074
Unallocated liabilities						9,300
Total liabilities	566	75,508	–	–	–	85,374
Capital expenditure	–	29,221	–	–	–	29,221
Depreciation and Amortization	–	7,870	–	—	–	7,870
Reversal of provision for impairment loss of trade receivables	–	(660)	–	–	–	(660)

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, deferred taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 14) and land use rights (Note 15).

6 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analyzed as follows:

	2005 HK$'000	2004 HK$'000
Depreciation of property, plant and equipment (Note 14)	**7,181**	7,814
Employee benefit expense (Note 12)	**30,100**	20,115
Changes in inventories of finished goods and work in progress	**6,236**	3,529
Raw materials and consumables used	**150,607**	169,025
Transportation	**2,703**	3,040
Advertising cost	**141**	172
Auditors' remuneration	**492**	440
Operating lease expenses for land use rights (Note 15)	**464**	56
Operating lease rentals in respect of premises	**84**	84
Research and development costs	**588**	4,093
Provision/ (reversal of provision) on inventories to net realizable value	**608**	(754)
Impairment provision/ (reversal of provision) for trade receivables	**2,750**	(660)
(Gain)/ Loss on disposal of property, plant and equipment	**(3)**	251
Foreign exchange loss/(gain)	**1,775**	(489)

7 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans wholly repayable within one year	**1,548**	1,291

8 INCOME TAX EXPENSE

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.

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.

8 INCOME TAX EXPENSE (CONTINUED)

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 periods of Shangsheng Electrics expired in 2004 and it is currently subject to EIT rate of 27%. The year ended 31st December 2005 is the first profit-making year of Sonavox Acoustics. Sonavox Acoustics is still in a tax loss position after off setting tax losses carried forward. Accordingly, Sonavox Acoustics is still not subject to EIT. Shangsheng Technology and Suzhou Hesheng have been reporting tax losses since their establishments.

No provision for Hong Kong profits tax has been made as there is no assessable profit (2004: Nil) for the subsidiaries operating in Hong Kong during the year ended 31st December 2005.

The amount of taxation charged to the consolidated income statement represents:

	2005	2004
	HK$'000	HK$'000
Current taxation		
– Mainland China enterprise income tax	**5,517**	9,750
Deferred taxation	**403**	(390)
Income tax expense	**5,920**	9,360

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Mainland China as follows:

	2005	2004
	HK$'000	HK$'000
Profit before income tax	**10,735**	31,973
Calculated at taxation rate of 27% (2004: 27%)	**2,898**	8,633
Effect of different tax rate	**471**	(184)
Expenses not deductible for tax purposes	**117**	911
Utilization of previously unrecognized tax losses	**(188)**	–
Unrecognized tax losses	**1,123**	–
Re-estimation of deferred tax assets to the extent of available taxable profit	**1,499**	–
Income tax expense	**5,920**	9,360

9 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$4,883,000 (2004 Profit: HK$7,660,000).

10 EARNINGS PER SHARE

(A) BASIC

Basic 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.

	2005	2004
Profit attributable to equity holders of the Company (HK $'000)	**23**	10,086
Weighted average number of ordinary shares in issue ('000)	**320,000**	320,000
Basic earnings per share (HK cent per share)	**0.01**	3.15

(B) DILUTED

Diluted 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 30). 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.

	2005	2004
Profit used to determine diluted earnings per share (HK $'000)	**23**	10,086
Weighted average number of ordinary shares in issue ('000)	**320,000**	320,000
Adjustments for – share options ('000)	**500**	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	**320,500**	320,000
Diluted earnings per share (HK cent per share)	**0.01**	N/A

11 DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31st December 2005 (2004 Interim: HK$512,000 paid).

12 EMPLOYEE BENEFIT EXPENSE

	2005	2004
	HK$'000	HK$'000
Wages and salaries	**24,659**	22,079
Share-based payment	**1,948**	–
Pensions for defined contribution schemes/ (Reversal of pensions)	**3,493**	(1,964)
	30,100	20,115

13 DIRECTOR'S AND MANAGEMENT'S EMOLUMENTS

(A) DIRECTORS' EMOLUMENTS

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(*) 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	–	260	–	–	325	–	–	585
– Mr. Yang Ching Yau	–	260	–	–	325	–	–	585
Independent non-executive:								
– Mr. Fan Chi Fai, Paul	109	–	–	–	–	–	–	109
– Mr. Yiu Chi Wah	117	–	–	–	–	–	–	117
– Mr. Wong Kai Tung, Simon	117	–	–	–	–	–	–	117

The remuneration of every Director for the year ended 31st December 2004 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(*) 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	–	260	–	–	–	–	–	260
– Mr. Yang Ching Yau	–	260	–	–	–	–	–	260
Independent non-executive:								
– Mr. Fan Chi Fai, Paul	75	–	–	–	–	–	–	75
– Mr. Yiu Chi Wah	180	–	–	–	–	–	–	180
– Mr. Wong Kai Tung, Simon	180	–	–	–	–	–	–	180

Note:

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

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

13 DIRECTOR'S AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

(A) DIRECTORS' EMOLUMENTS (CONTINUED)

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

	2005	2004
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 (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries and allowances	**1,449**	1,449
Pensions	**30**	30
Share-based payment	**974**	–
	2,453	1,479

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 all of the five highest paid individuals fell within the range of Nil to HK$1,000,000.

14 PROPERTY, PLANT AND EQUIPMENT

	Group						
	Buildings HK$'000	Leasehold Improve-ments HK$'000	Machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation							
At 1st January 2004	27,441	2,802	30,717	6,609	3,090	2,918	73,577
Additions	627	–	8,141	1,625	80	8,715	19,188
Transfers	–	–	2,918	–	–	(2,918)	–
Disposals	–	–	(1,124)	–	(296)	–	(1,420)
Revaluation	(1,004)	–	–	–	–	–	(1,004)
At 31st December 2004	27,064	2,802	40,652	8,234	2,874	8,715	90,341
Additions	–	–	1,904	339	670	35,116	38,029
Transfers	–	–	888	–	–	(888)	–
Disposals	–	–	–	–	(365)	–	(365)
Translation adjustments	488	51	762	152	55	692	2200
Revaluation	(1,085)	–	–	–	–	–	(1,085)
At 31st December 2005	26,467	2,853	44,206	8,725	3,234	43,635	129,120
Accumulated depreciation							
At 1st January 2004	–	1,750	15,559	4,251	2,059	–	23,619
Charge for the year	1,151	516	4,433	1,164	550	–	7,814
Disposals	–	–	(884)	–	(266)	–	(1,150)
Revaluation	(1,151)	–	–	–	–	–	(1,151)
At 31st December 2004	–	2,266	19,108	5,415	2,343	–	29,132
Charge for the year	1,147	541	4,204	1,027	262	–	7,181
Disposals	–	–	–	–	(315)	–	(315)
Translation adjustments	13	46	389	108	360	–	916
Revaluation	(1,160)	–	–	–	–	–	(1,160)
At 31st December 2005	–	2,853	23,701	6,550	2,650	–	35,754
Net book value							
At 31st December 2005	26,467	–	20,505	2,175	584	43,635	93,366
At 31st December 2004	27,064	536	21,544	2,819	531	8,715	61,209

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. The revaluation surplus net of applicable deferred income taxes was credited to property revaluation reserve (Note 22).

Depreciation expense of approximately HK$7,181,000 (2004: HK$7,814,000) has been expensed in cost of goods sold.

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

	Group	
	2005 HK$'000	2004 HK$'000
Cost	**25,973**	25,513
Accumulated depreciation	**(5,803)**	(3,977)
Net book amount	**20,171**	21,536

Bank borrowings of the Group are secured on buildings for the carrying amount of approximately HK$26,467,000 (2004: HK$27,064,000) (Note 25).

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The analysis of the cost or valuation at 31st December 2005 of the above assets is as follows:

	Group						
	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost	–	2,853	44,206	8,725	3,234	43,635	102,653
At revaluation	26,467	–	–	–	–	–	26,467
	26,467	2,853	44,206	8,725	3,234	43,635	129,120

The analysis of the cost or valuation at 31st December 2004 of the above assets is as follows:

	Group						
	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost	–	2,802	40,652	8,234	2,874	8,715	63,277
At revaluation	27,064	–	–	–	–	–	27,064
	27,064	2,802	40,652	8,234	2,874	8,715	90,341

15 LAND USE RIGHTS

The Group's land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Outside Hong Kong, held on leases of 50 years	**11,786**	12,034

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Beginning of year	**12,034**	2,057
Additions	**–**	10,033
Amortization of prepaid operating lease payment	**(464)**	(56)
Translation adjustments	**216**	–
	11,786	12,034

Bank borrowings of the Group are secured on land use rights for the carrying amount of approximately HK$ 11,786,000 (2004: HK$12,034,000) (Note 25).

16 INVESTMENT IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**14,650**	14,650
Amounts due from subsidiaries	**42,680**	38,651
	57,330	53,301

Amounts due from subsidiaries are unsecured, interest-free and not repayable within one year.

The following is a list of the subsidiaries as at 31st December 2005:

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%
Suzhou Shangsheng Electrics Co., Ltd. (b & d)	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 2005, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems	US$5,124,000	51%
Suzhou Hesheng Industries Co., Ltd. (b & c)	Mainland China, 26th April 2005, Sino-foreign equity joint venture	Manufacture and sales of parts for loudspeaker systems	–	51%
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, 19th August 2002, limited liability company	Inactive	US$1	100%
Detroit Sonavox Inc.	U.S.A., limited liability company	Provision of after-sales services	US$1	51%

16 INVESTMENT IN SUBSIDIARIES (CONTINUED)

Notes:

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

(b) Suzhou Shangsheng Electrics Co., Ltd., Suzhou Sonavox Acoustics Co., Ltd., Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. 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) Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established in 2005 with registered capital of approximately HK$101,400,000 (equivalent to US$13,000,000) and approximately HK$39,000,000 (equivalent to US$5,000,000) respectively. As at 31st December 2005, the Group had outstanding commitments of approximately HK$30,662,000 (equivalent to US$3,931,000) and approximately HK$19,890,000 (equivalent to US$2,550,000) respectively for capital contribution to these two subsidiaries.

(d) Pursuant to a shareholders' resolution of Suzhou Shangsheng Electrics Enterprises Co., Ltd. ("Shangsheng Enterprises"), a 51% owned subsidiary of the Group, dated 1st August 2005, the operations of Shangsheng Enterprises were merged with Suzhou Shangsheng Electrics Co., Ltd. effective 2nd August 2005. The transaction was approved by relevant Mainland China authorities during the year ended 31st December 2005.

17 INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**10,628**	12,625
Work-in-progress	**3,996**	3,241
Finished goods	**5,671**	6,856
	20,295	22,722

At 31st December 2005, inventories stated at net realisable value amounted to approximately HK$16,299,000 (2004: HK$12,625,000).

The cost of inventories recognized as expense and included in cost of goods sold amounted to approximately HK$156,843,000 (2004: HK$172,554,000).

18 TRADE AND NOTE RECEIVABLES

	Group	
	2005	2004
	HK$'000	HK$'000
Trade and note receivables		
– third parties	**48,507**	57,038
– related parties (Note 29)	**155**	155
	48,662	57,193
Less: Provision for impairment of receivables	**(3,446)**	(696)
Trade and note receivables – net	**45,216**	56,497

The fair value of trade and note receivables approximated the carrying value.

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18 TRADE AND NOTE RECEIVABLES (CONTINUED)

The majority of the Group's sales is on open account in accordance with terms specified in the contracts governing relevant transaction. At 31st December 2005, the ageing analysis of the Group's trade and note receivables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**28,592**	35,453
31 – 60 days	**9,559**	13,331
61 – 90 days	**3,353**	3,880
91 – 180 days	**3,206**	2,246
181 – 360 days	**2,287**	1,547
Over 360 days	**1,665**	736
	48,662	57,193
Less: Provision for impairment of receivables	**(3,446)**	(696)
	45,216	56,497

As at 31st December 2005, the top five customers accounted for 52% (2004: 65%) of the Group's trade and note receivables.

The Group has recognized a loss of approximately HK$2,750,000 (2004: reversal of impairment loss of approximately HK$660,000) for the impairment of its trade and note receivables during the year ended 31st December 2005. The loss has been included in the selling and marketing costs in the consolidated income statement.

19 DUE FROM MINORITY SHAREHOLDERS OF PRC SUBSIDIARIES

Amounts due from minority shareholders of PRC subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank deposits denominated in:				
Renminbi	**34,376**	22,951	**–**	–
US dollar	**8,176**	9,589	**–**	–
HK dollar	**4,906**	12,081	**4,786**	11,960
Others	**2**	3,872	**–**	–
	47,460	48,493	**4,786**	11,960

The Group's cash and bank deposits of approximately HK$34,376,000 (2004: HK$ 22,951,000) are denominated in 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 1.4% to 3.0% (2004: from 1.4% to 3.0%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 SHARE CAPITAL

	Authorised	
	2005	2004
	HK$'000	HK$'000
20,000,000,000 (2004: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000

	Issued and fully paid	
	2005	2004
	HK$'000	HK$'000
320,000,000 (2004: 320,000,000) ordinary shares of HK$0.01 each	**3,200**	3,200

22 RESERVES

Movements of the Group's reserves were as follows:

	Group							
	Share premium	Property revaluation reserve	Statutory reserves (Note a)	Share-based payment reserve	Merger reserve (Note b)	Cumulative translation adjustment	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2004	25,753	5,259	4,857	–	2,441	125	25,537	63,972
Profit for the year	–	–	–	–	–	–	10,086	10,086
Dividends paid	–	–	–	–	–	–	(3,424)	(3,424)
Transfer to statutory reserves	–	–	753	–	–	–	(753)	–
Surplus on revaluation of buildings	–	75	–	–	–	–	–	75
Recognition of deferred tax liabilities	–	(20)	–	–	–	–	–	(20)
Translation adjustments	–	–	–	–	–	(50)	–	(50)
Balance at 31st December 2004, as previously reported	25,753	5,314	5,610	–	2,441	75	31,446	70,639
Adjustment for adoption of HKAS 17	–	(2,745)	–	–	–	–	–	(2,745)
Balance as at 31 December 2004, as restated	25,753	2,569	5,610	–	2,441	75	31,446	67,894
Profit for the year	–	–	–	–	–	–	23	23
Transfer to statutory reserves	–	–	856	–	–	–	(856)	–
Surplus on revaluation of buildings	–	39	–	–	–	–	–	39
Recognition of deferred tax liabilities	–	(10)	–	–	–	–	–	(10)
Share-based payment	–	–	–	1,948	–	–	–	1,948
Translation adjustments	–	–	–	–	–	1,654	–	1,654
Balance as at 31 December 2005	25,753	2,598	6,466	1,948	2,441	1,729	30,613	71,548

22 RESERVES (CONTINUED)

Movements of the Company's reserves were as follows:

	Company				
	Share premium HK$'000	Share-based payment reserve HK$'000	Merger reserve (Note b) HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1st January 2004	25,753	–	19,550	12,809	58,112
Profit for the year	–	–	–	7,660	7,660
Dividends paid	–	–	–	(3,424)	(3,424)
Balance as at 31 December 2004	25,753	–	19,550	17,045	62,348
Loss for the year	–	–	–	(4,883)	(4,883)
Share-based payment	–	1,948	–	–	1,948
Balance as at 31 December 2005	25,753	1,948	19,550	12,162	59,413

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the Group's subsidiaries in Mainland China, appropriations are made from the retained earnings 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.

Merger reserve of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to a reorganisation of the Company prior to the listing of its shares in the Stock Exchange of Hong Kong Limited.

23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2004: 27%).

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

	Group							
	Accelerated tax depreciation		Provision for assets		Tax losses		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Deferred tax assets								
At 1st January	**2,391**	1,938	**188**	366	**1,496**	1,381	**4,075**	3,685
Translation adjustments	**6**	–	**–**	–	**3**	–	**9**	–
Credited/(charged) to income statement	**143**	453	**953**	(178)	**(1,499)**	115	**(403)**	390
At 31 December	**2,540**	2,391	**1,141**	188	**–**	1,496	**3,681**	4,075

	Revaluation of buildings	
	2005	2004
	HK$'000	HK$'000 (Restated)
Deferred tax liabilities		
At 1st January, as previously reported	**(1,872)**	(3,813)
Adjustment for adoption of HKAS 17	**–**	1,979
At 1st January as restated	**(1,872)**	(1,834)
Charged to equity	**(20)**	(38)
At 31st December	**(1,892)**	(1,872)

Deferred tax assets and liabilities are further analysed as follows:

	2005	2004
	HK$'000	HK$'000 (Restated)
Deferred tax assets to be recovered after more than 12 months	**3,681**	4,075
Deferred tax liabilities to be settled after more than 12 months	**(1,892)**	(1,872)

Deferred income tax assets are recognised for tax loss 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 income tax assets of approximately HK$3,395,000 (2004: HK$2,272,000) that may be carried forward against future taxable income. Losses amounting to approximately HK$4,870,000 (2004: HK$5,361,000) will expire during 2006 to 2010.

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24 TRADE AND NOTE PAYABLES

At 31st December 2005, the ageing analysis of the Group's trade and note payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**14,914**	24,359
31 – 60 days	**11,951**	10,060
61 – 90 days	**10,534**	4,507
91 – 180 days	**9,102**	1,108
181 – 360 days	**197**	404
Over 360 days	**69**	8
	46,767	40,446

25 SHORT-TERM BANK LOANS

As at 31st December 2005, the Group's short-term bank loans bore interest at rates ranging from 4.96% to 5.58% (2004: from 5.04% to 5.58%) per annum and were repayable within one year.

	Group	
	2005	2004
	HK$'000	HK$'000
Secured	**17,637**	28,290
Un-secured	**14,400**	–
	32,037	28,290

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

	Group	
	2005	2004
	HK$'000	HK$'000
6 months or less	**28,197**	14,145
6 to 12 months	**3,840**	14,145
	32,037	28,290

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

	Group	
	2005	2004
	HK$'000	HK$'000
Renminbi	**28,800**	28,290
US dollar	**2,847**	–
HK dollar	**390**	–
	32,037	28,290

26 CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to net cash inflow generated from operations:

	2005 HK$'000	2004 HK$'000
Profit before income tax	**10,735**	31,973
Share-based payment	**1,948**	–
Interest income	**(114)**	(65)
Interest expense	**1,548**	1,291
Depreciation and amortization	**7,645**	7,870
(Gain)/Loss on disposal of property, plant and equipment	**(3)**	251
Operating profit before working capital changes	**21,759**	41,320
Decrease/(Increase) in inventories	**2,427**	(8,737)
Decrease/(Increase) in trade and note receivables	**11,281**	(19,291)
Increase in prepayments, deposits and other current assets	**(1,493)**	(609)
Increase in due from a related company	**–**	(516)
Increase in trade and notes payables	**6,321**	18,905
Increase/(Decrease) in accruals and other payables	**2,975**	(2,227)
Net cash inflow generated from operations	**43,270**	28,845

27 BANKING FACILITIES

As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$52,800,000 (2004: HK$28,290,000). Unused bank facilities as at 31st December 2005 amounted to approximately HK$20,763,000 (2004: NIL). These facilities were secured by pledges over land use rights and buildings of the Group with a carrying value of approximately HK$38,253,000 (2004: HK$39,098,000).

28 COMMITMENTS

(A) CAPITAL COMMITMENTS

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

	Group	
	2005 HK$'000	2004 HK$'000
Property, plant and equipment — Contracted but not provided for	**20,964**	19,838

(B) COMMITMENTS UNDER OPERATING LEASES

At 31st December 2005, the Group had aggregate minimum lease payments under non-cancellable operating lease as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Not later than one year	**28**	77
Later than one year and not later than five years	**–**	12
	28	89

29 RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(A) SALES OF GOODS AND SERVICES

	Group 2005 HK$'000	Group 2004 HK$'000
Sales of goods		
– Sonavox Electrics (Suzhou Industrial Park) Limited (i & ii)	**551**	–
– Asia Elite International Limited (i & ii)	**–**	283
	551	283

(B) KEY MANAGEMENT COMPENSATION

	Group 2005 HK$'000	Group 2004 HK$'000
Salaries and other short-term employee benefits	**1,999**	1,999
Share-based payments	**1,624**	–
	3,623	1,999

(C) AMOUNTS DUE FROM RELATED PARTIES

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Trade receivables due from Asia Elite International Limited (i)	**155**	155	**–**	–
Due from Sonavox Electronics Limited (i)	**516**	516	**516**	516
Due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, minority shareholder of Mainland China subsidiaries (Note 19)	**1,613**	1,178	**–**	–

Notes:

(i) These are companies in which Mr. Yang Tsu Ying and Mr. Yang Ching Yau, Directors of the Company, 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.

30 SHARE-BASED COMPENSATION

The Group adopted a share option scheme which became effective at 8th June, 2002. Under which, share options are granted to 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.

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

	2005	
	Average exercise price in HK$ per share	**Options (thousands)**
At 1st January	–	–
Granted on 28th June 2005	**0.345**	**12,000**
At 31st December	**0.345**	**12,000**

All outstanding options were exercisable as at 31st December 2005.

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

The fair value of options granted during the period determined using the Black-Scholes valuation model was approximately HK$1,948,000. The significant inputs into the model were share price of HK$0.345 (at the grant date), exercise price of HK$ 0.345, standard deviation of expected share price returns of 49.83%, expected life of options of 5 years, zero expected dividend paid out rate and annual risk-free interest rate of 3.33%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

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31 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 (2004: 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 2005, the aggregate amount of the Group's employer contributions was approximately HK$1,389,000 (2004: HK$1,671,000).

32 EVENT AFTER THE BALANCE SHEET DATE

(A) ACQUISITION

On 27th January 2006, the Group acquired entire issued share capital of Indigo Manufacturing Inc. ("Indigo"), a company incorporated Ontario, Canada, at a consideration of approximately HK$34,980,000 (equivalent to CAD 5,300,000). Indigo is principally engaged in the design, develop, manufacture and sale of home and automotive audio products. Approximately HK$1,980,000 (equivalent to CAD 300,000) of the consideration will be settled by issuance of 5,089,974 ordinary shares of the Company at HK$0.389 each, and the remaining balance of approximately HK$33,000,000 (equivalent to CAD5,000,000) will be settled by cash. The transaction is expected to be completed by 10th April 2006.

(B) OTHER TRANSACTION

On 27th January 2006, the Company entered into a placing agreement with MasterLink Securities (Hong Kong) Corporation Limited, a company incorporated in Hong Kong, for the placing of the Company's convertible bonds up to a maximum principal amount of approximately HK$38,750,000 (equivalent to USD 5,000,000). The bonds can be converted up to an aggregate of 96,875,000 ordinary shares of the Company at HK$0.40 each. As of the date of approval of these financial statements, the placement has not been completed.

33 ULTIMATE HOLDING COMPANY

The Directors regard Newood Consultancy Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.