



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8226)

For the three-month period ended 31st March 2006 First Quarterly Report 2006

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

FINANCIAL RESULTS (UNAUDITED)

The board of Directors (the "Board") of Sonavox International Holdings Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (together the "Group" or "Sonavox") for the three months ended 31st March 2006. The unaudited results of the Group for the three months ended 31st March 2006 and comparative figures for the corresponding period in the financial year 2005 were as follows:

		For the three months ended 31st March	
		2006	2005
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	46,460	45,523
Cost of sales		(36,578)	(36,184)
Gross profit		9,882	9,339
Other gains – net		89	170
Selling and marketing costs		(2,697)	(2,986)
Administrative expenses		(2,740)	(2,746)
Operating profit		4,534	3,777
Finance costs		(492)	(347)
Profit before income tax	3	4,042	3,430
Income tax expense	4	(1,000)	(386)
Profit for the year		3,042	3,044
Attributable to:			
Equity holders of the Company		1,225	1,271
Minority interests		1,817	1,773
		3,042	3,044
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic (Cents)	6	0.383	0.397
– Diluted (Cents)	6	0.381	N/A

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities and are consistent with those followed in the Group's audited financial statements for the year ended 31st December 2005.

2. TURNOVER

The Group is principally engaged in the manufacture and sale of loudspeaker systems to customers in Mainland China and overseas. Accordingly, the Group has determined that geographical segments be presented as the primary reporting format.

Analysis of turnover and revenue in the unaudited consolidated profit and loss account is as follows:

	For the three months ended 31st March	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	46,460	45,523
Other revenue		
Interest income	89	26
Others	-	144
Total revenue	<u>46,549</u>	<u>45,693</u>

2. TURNOVER *(Continued)*

An analysis of geographical segments (unaudited) is as follows:

	For the three months ended 31st March 2006					Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	USA HK\$'000	Europe HK\$'000	
Turnover*						
External sales	<u>-</u>	<u>16,071</u>	<u>4,434</u>	<u>25,401</u>	<u>554</u>	<u>46,460</u>
Segment result	<u>(667)</u>	<u>1,768</u>	<u>488</u>	<u>2,795</u>	<u>61</u>	<u>4,445</u>
Other gains - net						<u>89</u>
Operating profit						<u>4,534</u>
Finance costs						<u>(492)</u>
Profit before income tax						<u>4,042</u>
Income tax expense						<u>(1,000)</u>
Profit for the year						<u>3,042</u>
Minority interests						<u>(1,817)</u>
Profit attributable to shareholders						<u>1,225</u>
Depreciation and amortization	<u>-</u>	<u>1,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,766</u>

2. TURNOVER (Continued)

	For the three months ended 31st March 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	<u>-</u>	<u>11,797</u>	<u>4,226</u>	<u>29,040</u>	<u>460</u>	<u>45,523</u>
Segment result	<u>(575)</u>	<u>1,084</u>	<u>388</u>	<u>2,668</u>	<u>42</u>	<u>3,607</u>
Other gains – net						<u>170</u>
Operating profit						<u>3,777</u>
Finance costs						<u>(347)</u>
Profit before income tax						<u>3,430</u>
Income tax expense						<u>(386)</u>
Profit for the year						<u>3,044</u>
Minority interests						<u>(1,773)</u>
Profit attributable to shareholders						<u>1,271</u>
Depreciation and amortization	<u>-</u>	<u>2,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,410</u>

* Segment sales are based on the country in which the customer is located.

3. PROFIT BEFORE INCOME TAX

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the three months ended 31st March 2005 and 2006.

4. INCOME TAX EXPENSE

The amount of taxation charged to the unaudited consolidated profit and loss account represents:

	For the three months ended 31st March	
	2006	2005
	HK\$'000	HK\$'000
Current taxation	502	455
Deferred taxation	498	(69)
	<hr/>	<hr/>
Taxation charges	1,000	386
	<hr/> <hr/>	<hr/> <hr/>

The Company is incorporated in the Cayman Islands and is exempt 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.

Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics") was exempted from Mainland China EIT up to 31st December 1997 and it is subject to Mainland China EIT at a rate of 12% 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 2005, being qualified as a "New and High Technology Enterprise". After the expiration of the above periods of tax exemption and reduction, Shangsheng Electrics is subject to a preferential state EIT rate of 12% and 3% local EIT rate, for the year ending 31st December 2006 since the export values of Shangsheng Electrics has contributed more than 70% of gross output value during the period. The year ended 31st December 2005 was the first profit-making year of Sonavox Acoustics and 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 are no assessable profit (2005: Nil) made in Hong Kong during the period.

5. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31st March 2006 (2005: Nil) so as to retain resources for future expansion.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share (unaudited) is as follows:

	For the three months ended 31st March 2006	2005
Profit attributable to shareholders (in HK\$'000)	1,225	1,271
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	320,000	320,000
Potential dilutive shares Share options (in '000)	12,000	-
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	321,105	320,000
Earnings per share – Basic (HK cent per share)	0.383	0.397
Diluted earnings per share (HK cent per share)	0.381	N/A

7. RESERVES (UNAUDITED)

Movements of the Group's reserves for the three months ended 31st March 2005 and 2006 were as follows:

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves HK\$'000	Merger reserve HK\$'000	Share-based payment reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained Earnings HK\$'000	Total HK\$'000
At 1st January 2006 (audited)	25,753	2,598	6,466	2,441	1,948	1,729	30,613	71,548
Profit for the three-month period	-	-	-	-	-	-	1,225	1,225
At 31st March 2006 (unaudited)	25,753	5,314	5,611	2,441	1,948	1,729	31,838	72,773
	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory Reserves HK\$'000	Merger reserve HK\$'000	Share-based payment reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2005, as restated (audited)	25,753	2,569	5,610	2,441	-	75	31,446	67,894
Profit for the three-month period	-	-	-	-	-	-	1,271	1,271
At 31st March 2005 (unaudited)	25,753	2,569	5,610	2,441	-	75	32,717	69,165

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the review period, automobile loudspeaker systems remained as the Group's major revenue stream, accounting for approximately 86% of its total turnover.

According to the recent auto news in Mainland China, output of sedan cars in Mainland China during the review period increased by 54.3% compared with the same period last year. As a result of the continuous increase in demand for automobile in Mainland China, the Group's sale of loudspeakers system for automobile in Mainland China increased from approximately HK\$10 million to HK\$16 million. Although the sale in overseas markets has slightly decreased by 10%, the Group continued to develop business relationship with the largest automaker in the overseas markets during the review period.

Financial Review

During the three months ended 31st March 2006, the Group achieved a turnover of approximately HK\$46,460,000 (2005: HK\$45,523,000), representing a 2% slightly increase as compared with the same corresponding period of year 2005. The gross profit margin was kept stable at 21%.

The Group's total expenses (excluding finance costs and income tax expense) for the three months ended 31st March 2006 increased slightly from approximately HK\$41,916,000 to approximately HK\$42,015,000. The increase was mainly attributable to the increase in cost of sales. The selling and marketing costs decreased by 10% were mainly attributable to less commission paid to overseas agents during the review period. Profit attributable to shareholders slightly dropped by 4% from approximately HK\$1,271,000 to HK\$1,225,000. Earnings per share were HK0.38 cent (2005: HK0.40 cent).

Liquidity, Financial Resources and Treasury Policies

During the three months ended 31st March 2006, the Group's major business operations took place in Mainland China, being financed mainly by the cash revenue generated from operating activities and partly from short-term bank loans.

As the Group has been continuously expanding its audio business in Mainland China and overseas markets, as well as implementing its production integration plan, capital expenditure of approximately HK\$9,878,000 was incurred during the period. As at 31st March 2006, the Group had cash and bank deposits of approximately HK\$62,249,000. The Group maintained a stable business performance in liquidity with a current ratio of 1.11 (As at 31st December 2005: 1.28) and a gearing ratio (short-term bank loans over total equity) of 0.35 as at 31st March 2006 (As at 31st December 2005: 0.24). The Group took the advantage of comparatively low interest expense incurred by borrowing short-term bank loans of approximately HK\$48,427,000 as at 31st March 2006 bearing interest rates ranging from 4.96% to 5.58% per annum with repayment within a year in Mainland China.

The Group adopts conservative treasury policies in managing its cash and financial matters in Hong Kong and Mainland China. Currently, cash and bank deposits are placed in interest-bearing bank accounts in Hong Kong and Mainland China denominated in Hong Kong dollars, Renminbi ("RMB"), the U.S. dollars and European dollars ("Euro"). The Group's liquidity and financial arrangements are reviewed regularly by the Directors and senior management.

Capital Commitments and Commitments under Operating Leases

As at 31st March 2006, the Group had capital commitment of approximately HK\$1,910,000 in respect of the acquisition of plant and equipment in Mainland China.

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established in 2005 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st March 2006, the Group had outstanding commitments of approximately US\$3,931,000 and US\$2,550,000 respectively for capital contribution to these two subsidiaries.

As at 31st March 2006, the Group did not have any significant contingent liabilities.

Material Acquisition/Disposals and Significant Investment

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 CAD5,300,000 (equivalent to approximately HK\$34,980,000). The consideration was settled as to CAD300,000 (equivalent to approximately HK\$1,980,000) 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 CAD5,000,000 (equivalent to approximately HK\$33,000,000) by cash. Subsequent to the balance sheet date on 12th April 2006, the transaction was completed.

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. Subsequent to the balance sheet date on 11th April 2006, the placement was completed.

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

Exposure on Exchange Rate Fluctuation

Most of the Group's bank borrowings were denominated in RMB, whilst receipts and expenditures of the Group were denominated in RMB, Hong Kong dollars, USD and Euros during the period. 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

As at 31st March 2006, the Group had aggregate banking facilities of approximately HK\$52,800,000 for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$4,373,000. These facilities were secured by the land use rights and buildings owned by certain Mainland China subsidiaries of the Group.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st March 2006 and 31st December 2005 were set out below:

	As at 31st March 2006	As at 31st December 2005
Management and administration	27	27
Sales and marketing	25	23
Manufacturing and operations	1,173	1,035
Research and development	52	52
Quality assurance and quality control	140	157
Finance and accounting	11	12
	<hr/>	<hr/>
Total	<u>1,428</u>	<u>1,306</u>

Remuneration of Employees and Policies

The Group recognises that its staff is among the Group's most important assets. With the overall objective of providing competitive salary packages, the employees' salary level will be adjusted in close association with the individual's performance, qualifications and experience as well as the labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be rewarded to eligible employees by the assessment of individual's performance and by reference to the Group's business performance.

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

Total remuneration of approximately HK\$6,110,000 incurred for the three months ended 31st March 2006 (2005: HK\$5,165,000). The Executive Directors and Independent Non-executive Directors received remuneration of approximately HK\$192,000 (2005: HK\$248,000) during the three months ended 31st March 2006.

Training Schemes

The Group provides on-going training programmes for its employees in order to keep them abreast of the latest market trends and new technologies of loudspeaker systems as well as to enhance their knowledge on new requirements of international standards. The Group also provides difference training programmes to its senior management in order to update their management skills and techniques.

Business Prospects

Looking ahead, the acquisition of Indigo Manufacturing Inc. ("Indigo") will not only accelerate the Group's business development pace in the overseas markets, but also enhance its R&D capabilities in home audio industry. By acquiring Indigo, the Group will be able to provide a more complete audio solution to different customers in the consumer electronics markets while improving the performance and functionality of the Group's major audio products.

Although the current economic factors in Mainland China such as the higher manufacturing overhead and macro economic control by the Mainland China Government, the Directors strongly believe that most of the car makers in Europe, Japan and the U.S. will continuously raise local content of their cars made in Mainland China in order to further lower imported parts costs and to response the automobile market quickly in Mainland China. As such, a strong foothold in automobile industry is expected to be further established in the coming period.

OTHER INFORMATION

Purchase, sale or redemption of shares

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

Pre-emptive rights

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

Connected transactions

During the period, 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 Chief Executives' Interests or Short Positions in the Shares or Debentures

As at 31st March 2006, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares

Name of Director	Type of interests	Capacity	Number of shares	Percentage of interest
Mr. Yang Tsu Ying (Note)	Corporate	Interest of a controlled corporation	240,000,000	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 March 2006, none of the Directors and Chief Executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

So far as was known to any Director of the Company, as at 31st March 2006, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) Long positions in the shares of the Company

Name	Capacity	Number of ordinary shares held	Percentage of interest
Newood Consultancy Limited (Note 1)	Beneficial owner	240,000,000	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 2,000,000 share option in which Mr. Yang Tsu Ying is interested.
3. Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share option in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 31st March 2006, 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.

The following share options were outstanding under the Scheme as at 31st March 2006:

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 You	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 period or at any time during the period.

Management contracts

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

Audit Committee

The Company established an Audit Committee on 8th July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 and Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the 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 12th May 2006, the financial results and the financial position, major accounting and internal auditing issues of the Group for the period ended 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 comprised of two Independent non-executive Directors 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 (Executive Director) – 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 review period, the Company has complied with the new Code on Corporate Governance Practices as set out in the Appendix 1.5 of the GEM Listing Rules.

Board practices and procedures

Throughout the period, 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.

On behalf of the Board,

Yang Ching Yau

Executive Director

Hong Kong, 12th May 2006

As at the date of this report, the Board of the Company comprises of two Executive Directors, namely Mr. Yang Tsu Ying and Mr. Yang Ching Yau; and three Independent Non-Executive Directors, namely Mr. Yiu Chi Wah, Mr. Wong Kai Tung, Simon, and Mr. Fan Chi Fai, Paul.