



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 six-month period ended 30th June 2006 Interim 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.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

The Board of Directors (the “Board”) of Sonavox International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the three-month and six-month periods ended 30th June 2006, together with the comparative figures for the corresponding periods in 2005 were as follows:

	Note	For the three months ended 30th June		For the six months ended 30th June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	85,603	59,590	132,063	105,113
Cost of goods sold		(67,839)	(48,087)	(104,417)	(84,270)
Gross profit		17,764	11,503	27,646	20,843
Other gains, net		210	158	299	328
Selling and marketing costs		(4,052)	(2,958)	(6,749)	(5,944)
Administrative expenses		(10,139)	(4,794)	(12,879)	(7,540)
Other expenses		(292)	–	(292)	–
Operating profit		3,491	3,909	8,025	7,687
Finance costs		(1,489)	(291)	(1,981)	(639)
Profit before income tax	3	2,002	3,618	6,044	7,048
Income tax expense	4	(525)	(586)	(1,525)	(972)
Profit for the six-month period		1,477	3,032	4,519	6,076
Attributable to:					
Equity holders of the Company		507	227	1,732	1,498
Minority interests		970	2,805	2,787	4,578
		1,477	3,032	4,519	6,076
Earnings per share for profit attributable to the equity holders of the Company during the six-month period					
– Basic (HK cent per share)	5	0.156	0.071	0.537	0.468
– Diluted (HK cent per share)	5	0.156	0.071	0.536	0.468
Dividends	6	–	–	–	–

CONDENSED CONSOLIDATED BALANCE SHEET

			As at		
			30th June	31st December	
	Note		2006	2005	
			HK\$'000	HK\$'000	
			(Unaudited)	(Audited)	
ASSETS					
Non-current assets					
Property, plant and equipment			115,375	93,366	
Land use rights			11,782	11,786	
Deferred income tax assets	11		7,962	3,681	
Intangible assets	7		24,703	–	
			<hr/>	<hr/>	
Total non-current assets			159,822	108,833	
Current assets					
Inventories	8		42,850	20,295	
Trade and note receivables	9		62,902	45,216	
Prepayments, deposits and other current assets			7,839	4,669	
Due from minority shareholders of					
Mainland China subsidiaries			–	1,613	
Due from a related company			–	516	
Bank balances and cash			53,262	47,460	
Investment tax credit receivable			2,643	–	
Deferred income tax assets	11		1,388	–	
			<hr/>	<hr/>	
Total current assets			170,884	119,769	
			<hr/>	<hr/>	
Total assets			330,706	228,602	
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	10		3,251	3,200	
Reserves			79,109	71,548	
			<hr/>	<hr/>	
Shareholders' funds			82,360	74,748	
Minority interests			61,037	58,250	
			<hr/>	<hr/>	
Total equity			143,397	132,998	
			<hr/>	<hr/>	

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		As at	
		30th June 2006	31st December 2005
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	1,892	1,892
Bank loans		2,541	–
Convertible bonds debt component	12	35,225	–
Finance lease obligations		416	–
Total non-current liabilities		40,074	1,892
Current liabilities			
Trade and note payables	13	73,374	46,767
Accruals and other payables		18,204	9,842
Short-term bank loans		51,116	32,037
Taxation payable		4,541	5,066
Total current liabilities		147,235	93,712
Total liabilities		187,309	95,604
Total equity and liabilities		330,706	228,602
Net current assets		23,649	26,057
Total assets less current liabilities		183,471	134,890

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share Capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves HK\$'000	Merger reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Cumulative translation adjustments HK\$'000	Convertible bonds equity component HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2006 (audited)	3,200	25,753	2,598	6,466	2,441	1,948	1,729	-	30,613	58,250	132,998
Profit for the six-month period	-	-	-	-	-	-	-	-	1,732	2,787	4,519
Share premium arising from acquisition	-	1,929	-	-	-	-	-	-	-	-	1,929
Share issued arising from acquisition	51	-	-	-	-	-	-	-	-	-	51
Issuance of convertible bonds	-	-	-	-	-	-	-	3,157	-	-	3,157
Translation adjustments	-	-	-	-	-	-	743	-	-	-	743
At 30th June 2006 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>6,466</u>	<u>2,441</u>	<u>1,948</u>	<u>2,472</u>	<u>3,157</u>	<u>32,345</u>	<u>61,037</u>	<u>143,397</u>
At 1st January 2005 (audited)	3,200	25,753	2,569	5,610	2,441	-	75	-	31,446	53,432	124,526
Profit for the six-month period	-	-	-	-	-	-	-	-	1,498	4,578	6,076
Dividends paid by a subsidiary to minority interests	-	-	-	-	-	-	-	-	-	(9,899)	(9,899)
Transfer to statutory reserves	-	-	-	981	-	-	-	-	(981)	-	-
Share option benefits	-	-	-	-	-	944	-	-	-	-	944
At 30th June 2005 (Unaudited)	<u>3,200</u>	<u>25,753</u>	<u>2,569</u>	<u>6,591</u>	<u>2,441</u>	<u>944</u>	<u>125</u>	<u>-</u>	<u>31,963</u>	<u>48,111</u>	<u>121,647</u>

**CONDENSED CONSOLIDATED CASH FLOW
STATEMENT (UNAUDITED)**

	For the six months ended 30th June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	<u>12,196</u>	<u>(6,924)</u>
Net cash used in investing activities	<u>(46,076)</u>	<u>(1,407)</u>
Net cash inflow from financing activities	<u>39,682</u>	<u>6,995</u>
Net increase/(decrease) in cash and cash equivalents	5,802	(1,336)
Cash and bank deposits at 1st January	<u>47,460</u>	<u>48,493</u>
Cash and bank deposits at 30th June	<u>53,262</u>	<u>47,157</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants and 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 except that the Group has adopted the following HKFRS for the six-month period ended 30th June 2006:

HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

2. TURNOVER, REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of loudspeaker systems.

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

	For the six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	132,063	105,113
Other revenue		
Bank interest income	233	49
Sale of scrap materials	66	135
Others	—	144
	<u>132,362</u>	<u>105,441</u>
Total revenue		

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

Approximately 51% of the Group's turnover for the six-month period ended 30th June 2006 (2005: 71%) arose from the Group's top five customers.

2. TURNOVER, REVENUE AND SEGEMENT REPORTING (Continued)

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

	For the six-month period ended 30th June 2006						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover*							
External sales	2,295	38,752	10,820	69,072	5,860	5,264	132,063
Segment result	(1,683)	2,783	775	5,003	443	405	7,726
Unallocated income							299
Finance costs							(1,981)
Profit before income tax							6,044
Income tax expense							(1,525)
Profit for the year							4,519
Minority interests							(2,787)
Profit attributable to equity holders of the Company							1,732
Capital expenditure	-	21,573	-	-	-	-	21,573
Depreciation and amortisation	-	3,938	-	-	-	-	3,938

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

2. **TURNOVER, REVENUE AND SEGEMENT REPORTING (Continued)**

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

	For the six-month period ended 30th June 2005						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover*							
External sales	–	33,596	8,555	60,512	2,450	–	105,113
Segment result	(2,310)	3,090	787	5,566	226	–	7,359
Unallocated income							328
Finance costs							(639)
Profit before income tax							7,048
Income tax expense							(972)
Profit for the year							6,076
Minority interests							(4,578)
Profit attributable to equity holders of the Company							1,498
Capital expenditure	–	1,508	–	–	–	–	1,508
Depreciation and amortisation	–	3,979	–	–	–	–	3,979

* 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 six-month periods ended 30th June 2005 and 2006.

4. INCOME TAX EXPENSE

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

	For the six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Overseas		
– Current taxation	1,655	1,232
– Deferred taxation	(130)	(260)
	1,525	972

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 Island, accordingly, is exempt 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.

Shangsheng Electrics was exempted from Mainland China EIT 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. Currently, Shangsheng Electrics is subject to a preferential EIT rate of 15% 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. Sonavox Acoustics, Shangsheng Technology and Suzhou Hesheng have been reporting tax loss since their establishment.

No provision for Hong Kong profits tax has been made as there are no assessable profits (2005: Nil) for the subsidiaries operating in Hong Kong during the six-month period.

5. **EARNINGS PER SHARE**

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

	For the three months ended 30th June		For the six months ended 30th June	
	2006	2005	2006	2005
Profit attributable to equity holders of the Company (<i>in HK\$'000</i>)	507	227	1,732	1,498
Weighted average number of ordinary shares in issue	324,474,702	320,000,000	322,249,712	320,000,000
Basic earnings per share (<i>HK cent per share</i>)	<u>0.156</u>	<u>0.071</u>	<u>0.537</u>	<u>0.468</u>
Weighted average number of ordinary shares in issue	324,474,702	320,000,000	322,249,712	320,000,000
Adjustments for – share options	688,525	283,019	688,525	283,019
	<u>325,163,227</u>	<u>320,283,019</u>	<u>322,938,237</u>	<u>320,283,019</u>
Diluted earnings per share (<i>HK cent per share</i>)	<u>0.156</u>	<u>0.071</u>	<u>0.536</u>	<u>0.468</u>

6. **DIVIDENDS**

The Directors do not recommend the payment of interim dividend for the six-month period ended 30th June 2006 (2005: Nil).

7. **INTANGIBLE ASSETS**

	Trademark and patents <i>HK\$'000</i> (Unaudited)	Goodwill <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Cost			
Acquisition of subsidiary and at 30th June 2006 (<i>Note 14</i>)	21,000	3,995	24,995
Accumulated amortisation and impairment:			
Amortisation provided during the period and at 30th June 2006 (<i>Note</i>)	292	–	292
Net book value:			
At 30th June 2006	<u>20,708</u>	<u>3,995</u>	<u>24,703</u>

Note:

Amortisation of approximately HK\$292,000 is included in other expenses in the consolidated income statement.

8. INVENTORIES

Inventories consisted of:

	30th June 2006	31st December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Raw materials	16,226	10,628
Work-in-progress	4,186	3,996
Finished goods	22,438	5,671
	<u>42,850</u>	<u>20,295</u>

At 30th June 2006, inventories stated at net realisable value amounted to approximately HK\$38,854,000 (31st December 2005: HK\$16,299,000).

9. TRADE AND NOTE RECEIVABLES

Majority of the Group's sales is on open account in accordance with terms specified in the contracts governing the relevant transactions.

Aging analysis of the Group's trade and note receivables was as follows:

	30th June 2006	31st December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 – 30 days	32,243	28,592
31 – 60 days	16,350	9,559
61 – 90 days	8,235	3,353
91 – 180 days	4,897	3,206
181 – 360 days	4,962	2,287
Over 360 days	1,801	1,665
	<u>68,488</u>	<u>48,662</u>
Less: Provision for bad and doubtful debts	(5,586)	(3,446)
	<u>62,902</u>	<u>45,216</u>

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

10. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$'000
Authorised		
At 31st December 2005 and at 30th June 2006	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 1st January 2006 (audited)	320,000,000	3,200
Acquisition of subsidiary	<u>5,089,974</u>	<u>51</u>
At 30th June 2006 (unaudited)	<u>325,089,974</u>	<u>3,251</u>

The Company issued 5,089,974 ordinary shares (the "Consideration Shares") on 12th April 2006 (1.57% of the enlarged issued share capital of the Company) to the shareholders of Indigo Manufacturing Inc. ("Indigo") as part of the purchase consideration for the entire issued shares of Indigo. The Consideration Shares have the same rights as the other ordinary shares in issue except that the Consideration Shares are restricted to be transferred or disposed of within 12 months from 12th April 2006. The fair value of the Consideration Shares at the date of acquisition amounted to HK\$1,980,000 (HK\$0.389 per share) (Note 14).

11. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2005: 27%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	7,962	3,681
Deferred tax assets to be recovered within 12 months	<u>1,388</u>	<u>–</u>
	<u>9,350</u>	<u>3,681</u>
Deferred tax liabilities to be settled after more than 12 months	<u>1,892</u>	<u>1,892</u>

12. CONVERTIBLE BONDS

On 6th April 2006, the Company issued 8% convertible redeemable bonds (“Convertible Bonds”) due 2011 at a fair value of US\$5,000,000 (equivalent to approximately HK\$38,791,000). The convertible bonds can be converted up to an aggregate 96,875,000 ordinary shares of the Company at HK\$0.40 each. The Company shall have the option to redeem the Convertible Bonds in whole or in part (i) at any time after the second anniversary of the date of issue of the Convertible Bonds until 30 days prior to the maturity date, provided that the average closing price of the Shares stated in the daily quotation sheet of the Stock Exchange for 20 consecutive trading date exceed 130% of the prevailing Conversion Price; or (ii) at any time the outstanding Convertible Bonds is less than 20% of the total issued amount. The amount payable for any redemption shall be 100% of the relevant amount of the principal amount of the Convertible Bonds so redeemed together with interest accrued thereon up to the date of repayment. On the second, third and fourth anniversary of the date of issue of the Convertible Bonds and only on such date, each holder of the Convertible Bonds shall have the right at such holder’s option to require the Company to redeem the Convertible Bonds held by such holder at 100% of the principal amount with respect to such Convertible Bonds together with interest accrued thereon up to the date of repayment.

The fair value of the convertible bonds debt component, included in non-current liabilities, amounted to approximately HK\$35,225,000, net of transaction costs. The remaining portion of the fair value of the Convertible Bonds is allocated to the embedded options that are recognised and included in shareholders’ equity, net of transaction costs.

13. TRADE AND NOTE PAYABLES

Aging analysis of the Group’s trade and note payables was as follows:

	30th June 2006 HK\$’000 (Unaudited)	31st December 2005 HK\$’000 (Audited)
0 – 30 days	36,675	14,914
31 – 60 days	17,609	11,951
61 – 90 days	13,179	10,534
91 – 180 days	4,929	9,102
181 – 360 days	268	197
Over 360 days	714	69
	73,374	46,767

14. BUSINESS COMBINATIONS

On 12th April 2006, the Group acquired entire issued share capital of Indigo, a company incorporated in Ontario, Canada, engaged in the design, development and marketing of home and automotive audio products. The acquired business contributed revenues of approximately HK\$24,494,000 and net profit of approximately HK\$1,079,000 to the Group for the period from 12th April 2006 to 30th June 2006.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Cash paid	25,308
Direct cost relating to the acquisition	1,118
Fair value of shares issued (<i>Note 10</i>)	1,980
	<hr/>
Total purchase consideration	28,406
Fair value of net assets acquired – shown as below	24,411
	<hr/>
Goodwill (<i>Note 7</i>)	3,995
	<hr/> <hr/>

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

	<i>HK\$'000</i>
Cash and short-term deposit	557
Trademark and patents (<i>Note 7</i>)	21,000
Trade receivables	19,129
Prepayments, deposits and other current assets	822
Due from shareholders	697
Investment tax credit receivable	3,543
Inventory	5,835
Deferred income tax assets	4,613
Property, plant and equipment	2,830
Short-term book loans	(9,235)
Trade payables	(15,613)
Accruals and other payables	(4,603)
Due to shareholders	(5,164)
	<hr/>
Net assets acquired	24,411
	<hr/> <hr/>

15. COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	30th June	31st December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Contracted but not provided for	<hr/> <hr/> 9,613	<hr/> <hr/> 20,964

BUSINESS AND OPERATION REVIEW

During the review period, according to information released by China Association of Automobile Manufacturers, China's automobile production and sale amounted to 3.6303 million units and 3.5352 million units respectively in the first half of 2006, up 28.94% and 26.71% from the same period of last year respectively. As the loudspeaker systems for automobiles is an integral part in the automobile industry, with the growth of automobile market in the Mainland China, the Group's sale for automobile loudspeaker systems increased approximately 23% from approximately HK\$27,819,000 to approximately HK\$34,211,000.

Automobile loudspeaker systems remained as the Group's major revenue stream, accounted for approximately 67% of its total turnover. Although the Group was affected by the severe competition in the worldwide automobile market and forced the Group to slightly reduce selling price for sale of automobile loudspeaker systems, the Group was still able to achieve 6% growth in its automobile loudspeaker systems sales with its successful market diversification strategy.

In April 2006, the Group acquired Indigo Manufacturing Inc. ("Indigo"), to further expand the scope of the Group's business to the U.S.A., Canada and other Asian countries and further enhance the Group's product range. After the acquisition, Indigo has entered into new markets and offered new capabilities in the form of complete turnkey audio products which would fuel the Group with steady revenue stream. During the review period, with Indigo's product development capabilities, the Group has launched an audio system encompassing unique technology for iPod. This product line is an important step in companies attempt to diversify into mainstream consumer products. A myriad of products are planned around this design that will explore new potential markets and potential customers alike. A new power supply system, amplifier, firmware, driver, and plastics, a real example of its overall capability and future offering have been developed for this new product line.

In May 2006, the Group's new factory has started its operation in Suzhou. The Directors and senior management believe that this newly established and more advanced factory will further expand the Group's production capabilities to meet the foreseeable sales target.

FINANCIAL REVIEW

Resulting from the acquisition of Indigo, the Group's turnover increased by 26% from approximately HK\$105,113,000 to approximately HK\$132,063,000 and gross profit increased by approximately 40% from approximately HK\$20,843,000 to approximately HK\$27,646,000.

Although the profit for the six-month period reduced by 25%, the profit attributable to equity holders of the Company reached approximately HK\$1,732,000, representing an increase of 16%, as compared to approximately HK\$1,498,000 in the same corresponding period of 2005.

The Group's selling and marketing costs and administrative expenses for the six-month period ended 30th June 2006 substantially increased by 54% from approximately HK\$13 million to approximately HK\$20 million. The increase of approximately HK\$7 million was due to the higher level of business operations during the review period.

Liquidity, Financial Resources and Treasury Policies

During the six-month period ended 30th June 2006, the Group's major business operations was mainly financed by the cash revenue generated from operating activities, short-term bank loans and partly from the 8% convertible redeemable bonds. As at 30th June 2006, the Group had cash and bank deposits of approximately HK\$53,262,000 (As at 31st December 2005: approximately HK\$47,460,000).

Compared with the performance in term of current ratio (total current assets divided by total current liabilities) and gearing ratio (total liabilities divided by total equity) as at 30th June 2006 and 31st December 2005, the Group's current ratio was reduced from 1.28 to 1.16 and gearing ratio was increased from 0.72 to 1.31. As at 30th June 2006, the Group had total liabilities amounted to approximately HK\$187,309,000 included short-term bank loans of approximately HK\$51,116,000 bearing interest at rates ranging from 5.04% to 6.75% per annum with repayment within a year and the 8% convertible redeemable bonds at a fair value of approximately HK\$38,791,000. To meet the need of further capabilities expansion in Mainland China, the Group obtained new short-term bank loan amounted to approximately HK\$10,271,000 during the six-month period. The convertible bonds were raised for financing the acquisition of Indigo in Canada and for daily operation of the Company.

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

Capital Commitment and Contingent Liabilities

As at 30th June 2006, the Group has capital commitment of approximately HK\$9,613,000 in respect of the acquisition of machinery and equipment (31st December 2005: approximately HK\$20,964,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established during the year 2005 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 30th June 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 30th June 2006, the Group did not have any significant contingent liabilities.

Material Acquisition/Disposals and Significant Investment

In April 2006, the Group had completed its acquisition of a company incorporated in Ontario, Canada, Indigo. The total adjusted consideration for the acquisition was approximately HK\$28,406,000.

Other than the investment in Indigo, there was no other material acquisition which would have been required to be disclosed under the GEM Listing Rules.

Exposure on Exchange Rate Fluctuation

Most of the Group's transactions, including borrowings, were conducted in RMB, Hong Kong dollars, Euro, U.S. and Canadian dollars during the period. The Group did not enter into derivative contracts to hedge its exposure to fluctuations in foreign currencies as the associated cost outweighed the benefit of entering such derivative contracts.

Banking Facilities and Pledge of Assets

As at 30th June 2006, the Group had aggregate banking facilities of approximately HK\$65,113,000 overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$14,022,000. Facilities amounted to approximately HK\$53,493,000 were secured by the Group's leasehold land and buildings in Mainland China.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st December 2005 and 30th June 2006 is set out below:

	As at	
	30th June	31st December
	2006	2005
Management and administration	56	50
Sales and marketing	32	24
Manufacturing and operations	1,102	1,119
Research and development	52	51
Quality assurance and quality control	155	130
Finance and accounting	13	12
	<hr/>	<hr/>
Total	1,410	1,386
	<hr/> <hr/>	<hr/> <hr/>

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 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 staff training programmes to eligible employees.

Total remuneration incurred for the six months ended 30th June 2006 increased by 41% from approximately HK\$11,321,000 to approximately HK\$15,959,000 due to higher level of operation and effect of the acquisition. The Directors had received remuneration of approximately HK\$384,000 (2005: HK\$416,000) during the period.

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 quality 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, organic business growth is expected to continue. With the synergy effect of Indigo, the Group plans to launch unique sub-woofer systems along with custom graphical user interface software. In addition, further system integrations with advanced technologies are under development. Stable revenue streams and profit contributed by Indigo and more business opportunities are expected. Directors and senior management are very optimistic about the contribution from Indigo and its R&D achievements.

Although the current economic factors in Mainland China such as the higher oil price and macro economic control by the Mainland Chinese Government, the Directors strongly believe that most of the car makers in Europe, Japan and the U.S.A. will raise local content of their cars made in Mainland China in order to further reduce overhead and to response the automobile market quickly and timely. As the automakers continuously focus their cost reduction in Mainland China, the Group will have greater business opportunities to grow its overseas business, a continuous and steady growth revenue pattern is expected. Therefore, a larger market share in loudspeaker systems for automobile industry is expected to be obtained in the foreseeable future.

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 30th June 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	73.83%
Mr. Yang Ching Yau (Note)	Corporate	Interest of a controlled corporation	240,000,000	73.83%

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

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

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

Save as disclosed in this paragraph, as at 30th June 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 30th June 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	73.83%
Silver Way Limited (Note 1)	Interest of a controlled corporation	240,000,000	73.83%
HSBC International Trustee Limited (Note 1)	Trustee	240,000,000	73.83%
Mr. Yang Tsu Ying (Note 1)	Beneficiary of a trust	240,000,000	73.83%
Mr. Yang Ching Yau (Note 1)	Beneficiary of a trust	240,000,000	73.83%
Madam Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	240,000,000	73.83%
Ms. Helen Lee (Note 3)	Interest of spouse	240,000,000	73.83%

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

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

Notes:

- 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.
- Madam Yang Chuang Ching-Hsiu is the spouse of Mr. Yang Tsu Ying and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Tsu Ying is interested.
- Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 30th June 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 Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

Other interests discloseable under the SFO

Save as disclosed in the preceding paragraphs headed “Directors’ and Chief Executives’ Interests or Short Positions in the Shares or Debentures” and “Substantial Shareholders”, so far as is known to the Directors, there is no other person or company who has an interest or short position in the shares, underlying shares or debentures of the Company that is discloseable under the SFO.

Directors’ interest in competing business

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

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

Rights of Directors and employees to acquire shares or debentures

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

The following share options were outstanding under the Scheme as at 30th June 2006:

Name of grantees (relationships with the Group)	Date of grant	Outstanding as at 1st January 2006	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30th June 2006	Exercise period	Subscription price HK\$
Mr. Yang Tsu Ying <i>(Chairman of the Group)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	28th June 2005 to 27th June 2015	0.345
Mr. Yang Ching Yau <i>(Chief Executive Officer of the Group)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	28th June 2005 to 27th June 2015	0.345
Mr. Zhou Jian Ming <i>(General manager of the Group)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Poon Lai Yin, Michael <i>(Chief Financial Officer of the Group)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Lin Chien Hung <i>(Manager of product development)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Dennis Crosson <i>(Manager of business development)</i>	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company, was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the 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 11th August 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 chaired by the independent non-executive director to make recommendations to the Board on the appointment of directors and the senior management personnel with reference to certain guidelines as endorsed by the Nomination Committee members. The Nomination Committee members include a majority of independent non-executive directors as follows:

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

* Independent non-executive director

Remuneration Committee

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

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

* Independent non-executive director

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the period ended 30th June 2006.

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 Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

On behalf of the Board,

Yang Ching Yau
Chief Executive Officer
Executive Director

Hong Kong, 14th August 2006