



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 nine-month period ended 30th September 2006 Third 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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

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

	Note	For the three-month period ended 30th September		For the nine-month period ended 30th September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	97,486	71,723	229,549	176,836
Cost of good sold		(78,368)	(59,163)	(182,786)	(143,433)
Gross profit		19,118	12,560	46,763	33,403
Other gains, net		228	5	527	333
Selling and distribution expenses		(3,209)	(4,156)	(9,958)	(10,100)
Administrative expenses		(9,929)	(4,914)	(23,100)	(12,454)
Operating profit		6,208	3,495	14,232	11,182
Finance costs		(530)	(435)	(2,511)	(1,074)
Profit before income tax	3	5,678	3,060	11,721	10,108
Income tax expense	4	(208)	(313)	(1,733)	(1,285)
Profit for the nine-month period		5,470	2,747	9,988	8,823
Attributable to:					
Equity holders of the Company		3,189	442	4,921	1,940
Minority interests		2,281	2,305	5,067	6,883
		5,470	2,747	9,988	8,823
Earnings per share for profit attributable to the equity holders of the Company during the nine-month period					
– Basic (cents per share)	5	0.982	0.138	1.522	0.606
– Diluted (cents per share)	5	0.982	0.138	1.522	0.606
Dividends	6	–	–	–	–

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 nine-month period	-	-	-	-	-	-	-	-	4,921	5,067	9,988
Share premium arising from acquisition	-	1,929	-	-	-	-	-	-	-	-	1,929
Share issued arising from acquisition	51	-	-	-	-	-	-	-	-	-	51
Translation adjustments	-	-	-	-	-	-	1,698	-	-	-	1,698
Issuance of convertible bonds	-	-	-	-	-	-	-	3,157	-	-	3,157
At 30th September 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>3,427</u>	<u>3,157</u>	<u>35,534</u>	<u>63,317</u>	<u>149,821</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 nine-month period	-	-	-	-	-	-	-	-	1,940	6,883	8,823
Dividends paid by a subsidiary to minority interests	-	-	-	-	-	-	-	-	-	(9,899)	(9,899)
Translation adjustments	-	-	-	-	-	-	222	-	-	-	222
Transfer to statutory reserves	-	-	-	1,068	-	-	-	-	(1,068)	-	-
Share option benefits	-	-	-	-	-	2,359	-	-	-	-	2,359
At 30th September 2005 (Unaudited)	<u>3,200</u>	<u>25,753</u>	<u>2,569</u>	<u>6,678</u>	<u>2,441</u>	<u>2,359</u>	<u>297</u>	<u>-</u>	<u>32,318</u>	<u>50,416</u>	<u>126,031</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 nine-month period ended 30th September 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 nine-month period ended 30th September	
	2006 HK\$'000	2005 HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	229,549	176,836
Other revenue		
Bank interest income	235	120
Sale of scrap materials	64	213
Others	228	–
Total revenue	<u>230,076</u>	<u>177,169</u>

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

Approximately 47% of the Group's turnover for the nine-month period ended 30th September 2006 (2005: 64%) 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 nine-month period ended 30th September 2006						
	Hong Kong	China	Japan	North America	European Union countries	Other Asian countries	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*							
External sales	5,487	54,297	16,320	123,719	8,868	20,858	229,549
Segment result	(4,251)	4,872	1,494	9,883	587	1,120	13,705
Unallocated income							527
Finance costs							(2,511)
Profit before taxation							11,721
Taxation							(1,733)
Profit after taxation and before minority interests							9,988
Minority interests							(5,067)
Profit attributable to shareholders							4,921
Depreciation and amortisation	1,380	5,642	-	197	-	-	7,219

* *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 nine-month period ended 30th September 2005						
	Hong Kong HK\$'000	China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	Group HK\$'000
Turnover*							
External sales	–	57,405	12,691	103,607	3,133	–	176,836
Segment result	(4,999)	5,145	1,137	9,285	281	–	10,849
Unallocated income							333
Finance costs							(1,074)
Profit before taxation							10,108
Taxation							(1,285)
Profit after taxation							8,823
Minority interests							(6,883)
Profit attributable to shareholders							1,940
Depreciation and amortisation	–	5,861	–	–	–	–	5,861

* 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 nine-month periods ended 30th September 2005 and 2006.

4. INCOME TAX EXPENSE

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

	For the nine-month period ended 30th September	
	2006	2005
	HK\$'000	HK\$'000
Overseas		
– Current taxation	3,948	1,751
– Overprovided China enterprise income tax recognised in the prior year	(1,509)	–
– Deferred taxation	(706)	(466)
	<u>1,733</u>	<u>1,285</u>
Taxation charges	<u>1,733</u>	<u>1,285</u>

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, 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 China.

Shangsheng Electrics was exempted from 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 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. In the prior year, the export values of Shangsheng Electrics has contributed more than 70% of gross output value in the year 2005, Shangsheng Electrics is subject to a preferential EIT rate of 15% starting from the year 2005. Accordingly, a tax refund of approximately HK\$1,509,000 was recognised during the three-month period ended 30th September 2006. Sonavox Acoustics 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 nine-month period.

5. EARNINGS PER SHARE

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

	For the three-month period ended 30th September 2006		For the nine-month period ended 30th September 2006	
	2006	2005	2006	2005
Profit attributable to equity holders of the Company (<i>in HK\$'000</i>)	3,189	442	4,921	1,940
Weighted average number of ordinary shares in issue	324,784,019	320,000,000	323,206,870	320,000,000
Basic earnings per share (<i>HK cent per share</i>)	0.982	0.138	1.522	0.606
Weighted average number of ordinary shares in issue	324,784,019	320,000,000	323,206,870	320,000,000
Adjustments for – share options	–	283,019	–	283,019
	324,784,019	320,283,019	323,206,870	320,283,019
Diluted earnings per share (<i>HK cent per share</i>)	0.982	0.138	1.522	0.606

6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend during the nine-month period ended 30th September 2006 (2005: Nil).

OVERALL REVIEW

According to the China Association of Automobile Manufacturers, China's automobile production and sales both surged by 25 percent in the first eight months of the year 2006 to 4.64 million vehicles. Automobile sale surged by 24.58 percent in the same period to hit 4.53 million units. The China automobile market growth was mainly driven by growth in the passenger vehicle market, particularly sedans. As the China automobile market stably expanded during the review period, the sale of automobile loudspeaker systems remained as the Group's major revenue stream, contributed turnover of approximately HK\$130 million, accounted for 57% of its total turnover. The Group continues to reap fruitful results not only in China but in Germany market. The quality of loudspeaker systems for automobile has been recognised by Volkswagen AG, initial batch of orders were successfully delivered to Volkswagen AG in July 2006.

Sale of home theatre loudspeaker systems brought in a total turnover of approximately HK\$26 million, accounted for approximately 12% of the Group's total turnover. The Directors believed that the sale of home theatre loudspeaker systems will be stably increased as a result of the synergetic effect of the acquisition in Canada in April 2006 and the continuous demand for multimedia and home audio products in the consumer electronic market.

The newly acquired subsidiary in Canada, Indigo Manufacturing Inc. contributed revenue of approximately HK\$74 million for the period from 12th April 2006 (date of acquisition) to 30th September 2006, accounted for 32% of the Group's total turnover and increased by 83% compared with the same period of year 2005. The growth was mainly driven by the launch of new audio systems for iPod, multimedia and high-end audio products.

During the nine-month period ended 30th September 2006, the Group's turnover increased by approximately 30% from approximately HK\$177 million to HK\$230 million. The increase in turnover was mainly due to revenue contribution by Indigo Manufacturing Inc.

Profit and profit margin

Despite the severe market competition in automobile industry and home theatre industry together with the continuous increase in raw materials costs and other manufacturing overhead, the Group's gross profit margin slightly increased from 18.89% to 20.37% compared with the same corresponding period last year. The Directors believed that the relative fixed manufacturing overhead will be absorbed by substantial increase in production volume in the coming period and material costs will be further reduced by implementing the Group's vertical integration plan, such that the Group's profit margin will gradually improve.

Selling and marketing costs and administrative expenses

Compared with the same corresponding period of 2005, the Group's selling and marketing costs and administrative expenses for the nine-month period ended 30th September 2006 increased by approximately HK\$11 million from approximately HK\$22 million to approximately HK\$33 million. Reasons for the substantial increase in these expenses were mainly attributable to the new factory in China has started its operation in May 2006 and expenses incurred by the newly acquired Canadian subsidiary were consolidated to the Group's account since April 2006.

Profit attributable to shareholders and earnings per share

The Group's profit attributable to shareholders for the nine-month period ended 30th September 2006 reached approximately HK\$4,921,000, representing a substantial increase of 153%, as compared to approximately HK\$1,940,000 in the same corresponding period of 2005. The significant growth in the profit attributable to shareholders was mainly contributed by the newly acquired Canadian subsidiary.

For the nine-month period ended 30th September 2006, the basic earnings per share of the Company was HK1.522 cent (2005: HK 0.606 cent), up 151% compared with the same corresponding period of 2005. Diluted earnings per share up by 151% from HK0.606 cent to HK1.522 cent.

Liquidity, Financial Resources and Treasury Policies

During the nine-month period ended 30th September 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 September 2006, the Group had cash and bank deposits of approximately HK\$36,766,000 (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 September 2006 and 31st December 2005, the Group's current ratio was reduced from 1.28 to 1.13 and gearing ratio was increased from 0.72 to 1.32. As at 30th September 2006, the Group had total liabilities amounted to approximately HK\$197,485,000 included short-term bank loans of approximately HK\$40,700,000 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 nominal value of approximately HK\$38,791,000.

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, 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 September 2006, the Group has capital commitment of approximately HK\$9.6 million in respect of the acquisition of machinery and equipment (31st December 2005: approximately HK\$21 million).

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 September 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 September 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 Indigo Manufacturing Inc. in Ontario, Canada. 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 September 2006, the Group had aggregate banking facilities of approximately HK\$66 million overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$25 million. Facilities amounted to approximately HK\$54 million were secured by the Group's leasehold land and buildings in China.

Number of Employees

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

	As at	
	30th September 2006	31st December 2005
Management and administration	47	27
Sales and marketing	39	23
Manufacturing and operations	1,061	1,035
Research and development	71	52
Quality assurance and quality control	104	157
Finance and accounting	11	12
	<hr/>	<hr/>
Total	1,333	1,306
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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 China and Hong Kong in relation thereto including contributions to society security scheme of China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and staff training programmes to eligible employees.

During the review period, the Group increased its employees for its new factory in China and 6% increase in statutory wages level for each individual staff in China together with the number of employees and total remuneration consolidated from the Canadian subsidiary, total remuneration incurred for the nine-month period ended 30th September 2006 therefore increased by 40% from approximately HK\$23,085,000 to approximately HK\$32,321,000. The Executive Directors and independent non-executive Directors of the Company had received remuneration of approximately HK\$330,000 (2005: HK\$360,000) and approximately HK\$216,000 (2005: HK\$248,000) respectively during the review 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. During the review period, the Group has provided 56 training programmes to its employees.

BUSINESS PROSPECTS

In spite of the global keen competition among automakers, most of the automakers in Europe, Japan and the U.S.A. will raise local content of their cars made in China in order to further reduce overhead and to response the automobile market quickly in car industry. The Directors believed that China will continue to be the fastest growing automobile market in the world. To capture these lucrative markets, the Group will conservatively expand its production capabilities and continuous its vertical integration plan in China, in the next quarter.

With the Group's efforts in the development of new audio products for automobile and home theatre, the Group plans to introduce new coaxial speakers automotive components systems and amplifiers for automobiles on an OEM and ODM basis. This diverse product mix is expected to further generate stable revenues for the Group.

With the aim of maintaining good quality standards and meeting customers' expectations, the Group would put in more resources in employee's training, knowledge management and corporate governance.

In view of the Group's excellent market position and strong competitive-edge, the Directors strongly believe that Sonavox will gain even greater advancements in the future and bring stable return to the shareholders.

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

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

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

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

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

Name	Capacity	Description of equity derivatives	Number of share options	Percentage of interest
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%
Madam Yang Chuang Ching-Hsiu <i>(Note 2)</i>	Interest of spouse	Share option	2,000,000	0.615%
Ms. Helen Lee <i>(Note 3)</i>	Interest of spouse	Share option	2,000,000	0.615%

Notes:

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

Save as disclosed above, as at 30th September 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 September 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 September 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 September 2006	Exercise period	Subscription price HK\$
Mr. Yang Tsu Ying (Chairman of the Group)	28th June 2005	2,000,000	-	-	-	2,000,000	28th June 2005 to 27th June 2015	0.345
Mr. Yang Ching Yau (Chief Executive Officer of the Group)	28th June 2005	2,000,000	-	-	-	2,000,000	28th June 2005 to 27th June 2015	0.345
Mr. Zhou Jian Ming (General manager of the Group)	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Poon Lai Yin, Michael (Chief Financial Officer and Company Secretary of the Group)	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Lin Chien Hung (Manager of product development)	28th June 2005	2,000,000	-	-	-	2,000,000	1st July 2005 to 30th June 2015	0.345
Mr. Dennis Crosson (Manager of business development)	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 Group. The audit committee members include:

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

* *Independent non-executive director*

In the audit committee meeting held on 13th November 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 September 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 new Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

On behalf of the Board,

Yang Ching Yau

*Chief Executive Officer
Executive Director*

Hong Kong, 14th November 2006