



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 ended 31st March 2007
First Quarterly Report 2007**

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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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the review period, automobile loudspeaker systems remained as the Group's major revenue stream, accounting for approximately 53% of its total turnover.

Sources with China Association of Automobile Manufacturers, for the first two months of year 2007, output of sedan cars in Mainland China has significantly increased by 33% compared with the same period last year. As a result of the continuous increase in demand for automobile in Mainland China and well developed relationship with overseas automakers, sale of loudspeakers system for automobile increased from approximately HK\$41 million to HK\$53 million during the review period.

Despite the Group experienced a hard time in the home theatre loudspeaker systems segment due to the severe competition in the market, the Group worked hard to explore new business opportunities in overseas markets by manufacturing and selling advanced loudspeaker systems to renowned customers in the U.S. As a result of the continuous efforts, the Group's loudspeaker systems for home theatres turnover increased from approximately HK\$5.9 million to HK\$18.9 million, representing a significant increase of approximately 220%.

Senior management is aware of the importance of innovation and technology. During the review period, there were at least 4 new systems for docking type products have been developed by the Group's subsidiary in Canada and more than 2 types of amplifiers were developed for automakers that will fuel the Group's turnover for the year 2007.

Further reinforcing the Group's engineering team in Canada, three more engineers were hired, one in software development, one in power electronics and one in acoustics.

Financial Review

During the three months ended 31st March 2007, the Group achieved a turnover of approximately HK\$100.1 million (2006: HK\$46.4 million), representing a 116% significantly increase as compared with the same corresponding period of year 2006. The gross profit margin was decreased due to different product mix and slightly decreased in average selling price for overseas customers.

The Group's total expenses (excluding finance costs and taxation) for the three months ended 31st March 2007 increased from approximately HK\$42.0 million to HK\$97.0 million. The increase was mainly attributable to the business commencement of two new non-wholly owned subsidiaries in Mainland China after May 2006 that incurred total expenses of approximately HK\$11.6 million during the review period. Additional overheads of approximately HK\$27.3 million which were necessary as a result of the Group's newly acquired wholly-owned subsidiary in Canada after April 2006.

Total R & D expenses for the first quarter of 2007 were approximately HK\$1.9 million, or 2 percent of the consolidated turnover, compared with approximately HK\$0.72 million for the same quarter of year 2006. The additional R & D expenses mainly were the result of potential business opportunities given by a leading automaker in the U.S. and continuing improvement of the new iPod docking stations and satellite radio docking stations.

Business Prospects

Although the current economic factors in Mainland China such as the higher oil price, higher wages and salaries and macro economic control by the Mainland Chinese Government, the Directors strongly believe that most of the automakers in Europe, Japan and the U.S. will continuously raise local content of their cars made in Mainland China in order 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.

To seize the immense business opportunities ahead, the Group will invest more resources in implementing vertical and horizontal integrated production plans. Apart from the existing production capabilities, the Group will further develop two world class electroplating production lines and automate its cones production lines in the coming period. These plans will not only stabilize the Group's production cost, improve production efficiency, ensure quality consistency and reliability, but also capture higher profit margins.

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 2007. The unaudited results of the Group for the three months ended 31st March 2007 and comparative figures for the corresponding period in the financial year 2006 were as follows:

		For the three months ended 31st March	
		2007	2006
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	100,169	46,460
Cost of sales		(85,083)	(36,578)
Gross profit		15,086	9,882
Other gains – net		435	89
Selling and marketing costs		(3,901)	(2,697)
Administrative expenses		(8,026)	(2,740)
Operating profit		3,594	4,534
Finance costs		(1,908)	(492)
Profit before income tax	3	1,686	4,042
Income tax expenses	4	(439)	(1,000)
Profit for the period		1,247	3,042
Attributable to:			
Equity holders of the Company		368	1,225
Minority interests		879	1,817
		1,247	3,042
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic	6	HK 0.113 cent	HK 0.383 cent
– Diluted	6	HK 0.113 cent	HK 0.381 cent

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 2006.

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	
	2007	2006
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	100,169	46,460
Other revenue		
Interest income	32	89
Others	403	-
	<hr/>	<hr/>
Total revenue	100,604	46,549
	<hr/> <hr/>	<hr/> <hr/>

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

For the three months ended 31st March 2007							
	Hong Kong	Mainland 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*	1,655	21,287	5,112	56,523	4,225	11,367	100,169
Segment result	(1,278)	1,045	266	2,667	161	298	3,159
Other gains – net							435
Operating profit							3,594
Finance costs							(1,908)
Profit before income tax							1,686
Income tax expenses							(439)
Profit for the period							1,247
Minority interests							(879)
Profit attributable to shareholders							368
Depreciation and amortisation	391	2,289	–	214	–	–	2,894

	For the three months ended 31st March 2006						
	Hong Kong	Mainland	Japan	North	European	Other	Group
	HK\$'000	China	HK\$'000	America	Union	Asian	HK\$'000
		HK\$'000		HK\$'000	countries	countries	
					HK\$'000	HK\$'000	
Turnover*	–	16,071	4,434	25,401	554	–	46,460
Segment result	(667)	1,768	488	2,795	61	–	4,445
Other gains – net							89
Operating profit							4,534
Finance costs							(492)
Profit before income tax							4,042
Income tax expenses							(1,000)
Profit for the period							3,042
Minority interests							(1,817)
Profit attributable to shareholders							1,225
Depreciation and amortisation	–	1,766	–	–	–	–	1,766

* 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-month periods ended 31st March 2006 and 2007.

4. INCOME TAX EXPENSES

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

	For the three months ended 31st March	
	2007	2006
	HK\$'000	HK\$'000
Current taxation	562	502
Deferred taxation (credited)/charged to income tax expenses	(123)	498
Taxation charges	<u>439</u>	<u>1,000</u>

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The Company's subsidiary established in the British Virgin Islands is incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of the British Virgin Islands income taxes.

The Company's subsidiary established in Canada, Sonavox Canada Inc. ("SCI") is subject to National and Ontario corporation income taxes at an aggregate rate of 38%.

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 enterprise income tax up to 31st December 1997 and it is subject to EIT at a rate of 15% from 1st January 1998 to 31st December 2000. Pursuant to an approval from the local tax authority of Mainland China, Shangsheng Electrics continued to be entitled to 50% reduction in tax rate from 1st January 2001 to 31st December 2003, being qualified as a "new and high technology enterprise". The tax exemption and reduction period of Shangsheng Electrics expired in 2005. As Shangsheng Electrics is recognised as a "Technology-incentive and Labour-incentive Enterprise" and is operating and registered in the Jiangsu Province High Technology Development Zone, it is currently subject to EIT of 15%. 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 profit (2006: 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 2007 (2006: 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 2007	2006
Profit attributable to the equity holders of the Company (in HK\$'000)	<u>368</u>	<u>1,225</u>
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	325,090	320,000
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	325,261	321,105
Earnings per share – Basic	<u>HK 0.113 cent</u>	<u>HK 0.383 cent</u>
Earnings per share – Diluted	<u>HK 0.113 cent</u>	<u>HK 0.381 cent</u>

7. RESERVES (UNAUDITED)

Movements of the Group's reserves for the three months ended 31st March 2006 and 2007 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 2007 (audited)	27,682	2,598	6,813	2,441	1,948	6,255	33,868	81,605
Profit for the period	-	-	-	-	-	-	368	368
Translation adjustments	-	-	-	-	-	(188)	-	(188)
At 31st March 2007 (unaudited)	<u>27,682</u>	<u>2,598</u>	<u>6,813</u>	<u>2,441</u>	<u>1,948</u>	<u>6,067</u>	<u>34,236</u>	<u>81,785</u>
	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, as restated (audited)	25,753	2,598	6,466	2,441	1,948	1,729	30,613	71,548
Profit for the period	-	-	-	-	-	-	1,225	1,225
At 31st March 2006 (unaudited)	<u>27,682</u>	<u>2,598</u>	<u>6,813</u>	<u>2,441</u>	<u>1,948</u>	<u>1,729</u>	<u>31,838</u>	<u>72,773</u>

Liquidity, Financial Resources and Treasury Policies

During the three months ended 31st March 2007, 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\$29,503,000 was incurred during the period. As at 31st March 2007, the Group had cash and bank deposits of approximately HK\$48,478,000. The Group's current ratio dropped from 1.01 as at 31st December 2006 to 0.98 and the gearing ratio (short-term bank loans over total equity) dropped from 0.59 as at 31st December 2006 to 0.50 as at 31st March 2007. The Group had short-term bank loans of approximately HK\$68,358,000 as at 31st March 2007 bearing interest rates ranging from 4.20% to 5.58% per annum with repayment within a year in Mainland China and overdrafts of approximately HK\$5,890,000 bearing interest rates at commercial prime leading rate plus 0.75% per annum.

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

Commitments and Contingent Liabilities

As at 31st March 2007, the Group had capital commitment of approximately HK\$15,700,000 in respect of the acquisition of plant and equipment in Mainland China and non-cancellable operating lease commitments of approximately HK\$1,236,000.

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established in 2006 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st March 2007, 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 2007, the Group did not have any significant contingent liabilities.

Material Acquisition/Disposals and Significant Investment

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

Exposure on Exchange Rate Fluctuation

Most of the Group's bank borrowings were denominated in RMB, CAD and USD, whilst receipts and expenditures of the Group were denominated in RMB, HKD, USD, Euros and CAD during the period. The Group is subject to foreign exchange exposure in RMB/CAD against USD and Euros. However, the Group was able to partially mitigate the foreign exchange impact by entering sale transaction with overseas customers denominated in RMB and entering purchase contract with overseas suppliers in USD. The Directors and senior management will continue to monitor closely the exchange risks and hedging by forward contracts and applicable derivatives when necessary.

Banking Facilities and Pledge of Assets

The Group had aggregate banking facilities of approximately HK\$83,649,000 for overdrafts and loan financing as at 31st March 2007. Unused bank facilities as at the same date amounted to approximately HK\$9,400,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group.

Number of Employees

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

	As at 31st March 2007	As at 31st December 2006
Management and administration	69	68
Sales and marketing	38	40
Manufacturing and operations	1,519	1,370
Research and development	81	70
Quality assurance and quality control	126	126
Finance and accounting	14	14
Total	<u>1,847</u>	<u>1,688</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\$13,030,000 incurred for the three months ended 31st March 2007 (2006: HK\$9,011,000). The executive Directors and independent non-executive Directors received remuneration of approximately HK\$147,000 (2006: HK\$192,000) during the three months ended 31st March 2007.

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.

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

On 28th February 2007, Sonavox Acoustics entered into sale and purchase agreements (the "Agreements") with Asian Elite International Company Limited ("Asian Elite"), a company incorporated in Mainland China and indirectly wholly-owned by Mr. Yang Ching Yau, and Sonavox Electronics (Suzhou Industrial Park) Company Limited ("Sonavox Electronics"), a company incorporated in Mainland China and indirectly owned as to 65% by Mr. Yang Ching Yau and his family members, respectively. Pursuant to the Agreements, Sonavox Acoustics has agreed to purchase amplifier systems from Asian Elite, subwoofers and tweeter systems from Sonavox Electronics.

Directors' and Chief Executives' Interests or Short Positions in the Shares or Debentures

As at 31st March 2007, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares

Name of Director	Type of interests	Capacity	Number of shares	Percentage of interest
Mr. Yang Tsu Ying (Note)	Corporate	Interest of a controlled corporation	240,000,000	73.83%
Mr. Yang Ching Yau (Note)	Corporate	Interest of a controlled corporation	240,000,000	73.83%

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

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

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

Save as disclosed in this paragraph, as at 31st March 2007, none of the Directors and Chief Executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

So far as was known to any Director of the Company, as at 31st March 2007, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) Long positions in the shares of the Company

Name	Capacity	Number of ordinary shares held	Percentage of interest
Newood Consultancy Limited (<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
Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.615%
Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.615%
Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	Share option	2,000,000	0.615%
Helen Lee (Note 3)	Interest of spouse	Share option	2,000,000	0.615%

Notes:

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

Save as disclosed above, as at 31st March 2007, the Directors were not aware of any other person or company who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

Other interests discloseable under the SFO

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

Directors' interest in competing business

The Group's ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited 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 Group adopted a share option scheme which became effective at 8th June, 2002. Under which, share options are granted any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price of the granted options is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

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

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

	Date of grant	Outstanding at 1/1/2007 '000	Granted during the period '000	Exercised/lapsed during the period '000	Outstanding at 31/12/2006 and 31/03/2007 '000	Exercise share price HK\$
Directors	28/6/2005	-	4,000	-	4,000	0.345
Employees	28/6/2005	-	8,000	-	8,000	0.345
		-	12,000	-	12,000	
Exercisable at the end of the period					12,000	

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

	Exercise price HK\$ per share	Share options
Expire on 27th June 2015	<u>0.345</u>	<u>12,000</u>

No share options have been granted to the Directors and employees during the period ended 31st March 2007.

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 14th May 2007, 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 31st March 2007.

Corporate Governance Practices and Procedures

The Group believes that enhancing good corporate governance demands long-term commitment from management and that the distinctive roles and functions of different committees are important in strengthening internal control.

During the 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
Executive Director

Hong Kong, 14th May 2007