



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 ended 30th June 2007
Interim 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.

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 2007, together with the comparative figures for the corresponding periods in 2006 were as follows:

	Note	For the three months ended 30th June		For the six months ended 30th June	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	95,969	85,603	196,138	132,063
Cost of good sold		(79,720)	(67,839)	(164,803)	(104,417)
Gross profit		16,249	17,764	31,335	27,646
Other gains, net		–	210	435	299
Selling and marketing costs		(3,268)	(4,052)	(7,169)	(6,749)
Administrative expenses		(11,261)	(10,431)	(19,287)	(13,171)
Operating profit		1,720	3,491	5,314	8,025
Finance costs		(1,536)	(1,489)	(3,444)	(1,981)
Profit before income tax	3	184	2,002	1,870	6,044
Income tax expense	4	(251)	(525)	(690)	(1,525)
Profit/(Loss) for the six-month period		(67)	1,477	1,180	4,519
Attributable to:					
Equity holders of the Company		(488)	507	(120)	1,732
Minority interests		421	970	1,300	2,787
		(67)	1,477	1,180	4,519
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the six-month period					
– Basic (HK cent per share)	5	(0.150)	0.156	(0.037)	0.537
– Diluted (HK cent per share)	5	(0.150)	0.156	(0.037)	0.536
Dividends	6	–	–	–	–

CONSOLIDATED BALANCE SHEET

		As at	
		30th June 2007	31st December 2006
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		152,968	140,758
Land use rights		11,249	11,651
Deferred income tax assets	11	5,945	5,849
Intangible assets	7	18,900	19,600
Goodwill		5,299	5,299
Total non-current assets		194,361	183,157
Current assets			
Inventories	8	58,212	38,617
Land use rights		273	276
Trade and note receivables	9	86,077	92,599
Prepayments, deposits and other current assets		15,870	11,098
Due from minority shareholders of Mainland China subsidiaries		–	878
Bank balances and cash		37,447	34,599
Deferred tax assets	11	1,897	1,716
Total current assets		199,776	179,783
Total assets		394,137	362,940

		As at	
		30th June 2007	31st December 2006
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	3,251	3,251
Reserves		<u>72,013</u>	<u>81,605</u>
Shareholders' funds		75,264	84,856
Minority interests		<u>64,658</u>	<u>63,358</u>
Total equity		<u>139,922</u>	<u>148,214</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	1,892	1,892
Bank loans		2,464	2,472
Convertible bonds debt component		32,502	32,502
Finance lease obligations		<u>221</u>	<u>295</u>
Total non-current liabilities		<u>37,079</u>	<u>37,161</u>
Current liabilities			
Trade and note payables	12	117,361	91,851
Accruals and other payables		15,817	29,451
Short-term bank loans		75,472	45,489
Obligations under finance lease		221	201
Embedded derivative financial instrument		6,604	6,604
Taxation payable		<u>1,661</u>	<u>3,969</u>
Total current liabilities		<u>217,136</u>	<u>177,565</u>
Total liabilities		<u>254,215</u>	<u>214,726</u>
Total equity and liabilities		<u>394,137</u>	<u>362,940</u>
Net current assets / (liabilities)		<u>(17,360)</u>	<u>2,218</u>
Total assets less current liabilities		<u>177,001</u>	<u>185,375</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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	Retained earnings HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2007 (audited)	3,251	27,682	2,598	6,813	2,441	1,948	6,255	33,868	63,358	148,214
Profit / (Loss) for the six-month period	-	-	-	-	-	-	-	(120)	1,300	1,180
Translation adjustments	-	-	-	-	-	-	(9,472)	-	-	(9,472)
At 30th June 2007 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>6,813</u>	<u>2,441</u>	<u>1,948</u>	<u>(3,217)</u>	<u>33,748</u>	<u>64,658</u>	<u>139,922</u>
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
Translation adjustments	-	-	-	-	-	-	1,661	-	-	1,661
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>3,390</u>	<u>32,345</u>	<u>61,037</u>	<u>141,158</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Net cash inflow from operating activities	<u>3,598</u>	<u>12,196</u>
Net cash used in investing activities	<u>(29,606)</u>	<u>(46,076)</u>
Net cash inflow from financing activities	<u>28,856</u>	<u>39,682</u>
Net increase in cash and cash equivalents	2,848	5,802
Cash and cash equivalent at 1st January	<u>34,599</u>	<u>47,460</u>
Cash and cash equivalent at 30th June	<u>37,447</u>	<u>53,262</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. The unaudited financial statements for the six months ended 30th June 2007 are consistent with those followed in the Group's audited financial statements for the year ended 31st December 2006.

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	
	2007	2006
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	196,138	132,063
Other revenue		
Bank interest income	115	233
Sale of scrap materials	–	66
Others	320	–
	<hr/> 196,573 <hr/>	<hr/> 132,362 <hr/>
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 41% of the Group's turnover for the six-month period ended 30th June 2007 (2006: 51%) arose from the Group's top five customers.

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

	For the six-month period ended 30th June 2007						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	3,252	56,781	8,782	97,630	7,105	22,588	196,138
Segment result	<u>(1,198)</u>	<u>1,646</u>	<u>127</u>	<u>2,939</u>	<u>360</u>	<u>1,005</u>	4,879
Unallocated income							435
Finance costs							<u>(3,444)</u>
Profit before income tax							1,870
Income tax expense							<u>(690)</u>
Profit for the year							1,180
Minority interests							<u>(1,300)</u>
Loss attributable to equity holders of the Company							<u><u>(120)</u></u>
Capital expenditure	<u>-</u>	<u>13,330</u>	<u>-</u>	<u>188</u>	<u>-</u>	<u>-</u>	<u>13,518</u>
Depreciation and amortisation	<u>700</u>	<u>5,339</u>	<u>-</u>	<u>441</u>	<u>-</u>	<u>-</u>	<u>6,480</u>

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

For the six-month period ended 30th June 2006							
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Japan <i>HK\$'000</i>	North America <i>HK\$'000</i>	European Union countries <i>HK\$'000</i>	Other Asian countries <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover*							
External sales	2,295	38,752	10,820	69,072	5,860	5,264	132,063
Segment result	<u>(1,683)</u>	<u>2,783</u>	<u>775</u>	<u>5,003</u>	<u>443</u>	<u>405</u>	7,726
Unallocated income							299
Finance costs							<u>(1,981)</u>
Profit before income tax							6,044
Income tax expense							<u>(1,525)</u>
Profit for the year							4,519
Minority interests							<u>(2,787)</u>
Profit attributable to equity holders of the Company							<u>1,732</u>
Capital expenditure	<u>-</u>	<u>21,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,573</u>
Depreciation and amortisation	<u>292</u>	<u>3,463</u>	<u>-</u>	<u>183</u>	<u>-</u>	<u>-</u>	<u>3,938</u>

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

3. PROFIT BEFORE INCOME TAX

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the six-month periods ended 30th June 2006 and 2007.

4. INCOME TAX EXPENSE

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

	For the six months ended 30th June	
	2007	2006
	HK\$'000	HK\$'000
Overseas		
– Current taxation	935	1,655
– Deferred taxation	(245)	(130)
	690	1,525

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. 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.

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. **EARNINGS / (LOSS) 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	
	2007	2006	2007	2006
Profit/(Loss) attributable to equity holders of the Company (in HK\$'000)	(488)	507	(120)	1,732
Weighted average number of ordinary shares in issue	325,089,974	324,474,702	325,089,974	322,249,712
Basic earnings/(loss) per share (HK cent per share)	<u>(0.150)</u>	<u>0.156</u>	<u>(0.037)</u>	<u>0.537</u>
Weighted average number of ordinary shares in issue	325,089,974	324,474,702	325,089,974	322,249,712
Adjustments for – share options	<u>931,476</u>	<u>688,525</u>	<u>931,476</u>	<u>688,525</u>
	<u>326,021,450</u>	<u>325,163,227</u>	<u>326,021,450</u>	<u>322,938,237</u>
Diluted earnings/(loss) per share (HK cent per share)	<u>(0.150)</u>	<u>0.156</u>	<u>(0.037)</u>	<u>0.536</u>

6. **DIVIDENDS**

The Directors do not recommend the payment of interim dividend for the six-month period ended 30th June 2007 (2006: Nil).

7. **INTANGIBLE ASSETS**

	Trademark and patents HK\$'000
Cost	
At 31st December 2006 (Audited) and at 30th June 2007 (Unaudited)	<u>21,000</u>
Accumulated amortisation	
At 31st December 2006 (Audited)	1,400
Amortisation provided for the six-month period	<u>700</u>
At 30th June 2007 (Unaudited)	<u>2,100</u>
Carrying amount	
At 30th June 2007 (Unaudited)	<u><u>18,900</u></u>
At 31st December 2006 (Audited)	<u><u>19,600</u></u>

Note: Amortisation of approximately HK\$700,000 (2006: Approximately HK\$292,000) is included in administrative expenses in the consolidated income statement.

8. INVENTORIES

Inventories consisted of:

	30th June 2007	31st December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Raw materials	22,554	18,099
Work-in-progress	7,361	6,712
Finished goods	28,297	13,806
	<u>58,212</u>	<u>38,617</u>

At 30th June 2007, inventories stated at net realisable value amounted to approximately HK\$28,297,000 (31st December 2006: HK\$13,806,000).

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 2007	31st December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 – 30 days	33,199	43,548
31 – 60 days	16,064	29,072
61 – 90 days	19,498	12,278
91 – 180 days	15,054	6,796
181 – 360 days	3,614	2,434
Over 360 days	1,862	1,685
	<u>89,291</u>	<u>95,813</u>
Less: Provision for bad and doubtful debts	<u>(3,214)</u>	<u>(3,214)</u>
	<u>86,077</u>	<u>92,599</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 <i>HK\$'000</i>
Authorised		
At 31st December 2006 (Audited) and at 30th June 2007 (Unaudited)	20,000,000,000	200,000
Issued and fully paid		
At 31st December 2006 (Audited) and at 30th June 2007 (Unaudited)	<u>325,089,974</u>	<u>3,251</u>

11. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2006: 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 consolidated balance sheet:

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	5,945	5,849
Deferred tax assets to be recovered within 12 months	<u>1,897</u>	<u>1,716</u>
	<u>7,842</u>	<u>7,565</u>
Deferred tax liabilities to be settled after more than 12 months	<u>(1,892)</u>	<u>(1,892)</u>

12. TRADE AND NOTE PAYABLES

Aging analysis of the Group's trade payables was as follows:

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
0 – 30 days	51,315	40,187
31 – 60 days	20,660	27,490
61 – 90 days	29,876	18,931
91 – 180 days	14,818	4,155
181 – 360 days	197	648
Over 360 days	<u>495</u>	<u>440</u>
	<u>117,361</u>	<u>91,851</u>

13. COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
Contracted but not provided for	<u>8,452</u>	<u>19,480</u>

OVERALL REVIEW

During the review period, according to information compiled by China Association of Automobile Manufacturers, China's automobile sale of sedan amounted to 2.2869 million units in the first half of 2007, up 25.92% from the same period of last year. 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 in Mainland China increased approximately by 40.6%. Sale of loudspeaker systems for automobile for overseas markets increased by 5.2%. Automobile loudspeaker systems remained as the Group's major revenue stream, accounted for approximately 54% of its total turnover. Although the Group was affected by the increasing 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 19% growth in its automobile loudspeaker systems sales with its successful market diversification strategy. With regard to home theatre audio systems, the Group is continuous to focus on developing hi-end audio products which will enjoy higher profit margin. During the review period, sale of home theatre audio systems increased by 109.6%.

Consolidated revenue for the six months ended 30 June 2007 surged 48% compared to that of the corresponding period last year. As a result of the substantial increase in sales, gross profit for the first half of 2007 increased by 13%. Notwithstanding the Group's subsidiaries in Mainland China effectively combat the impact of inflationary labour cost and materials cost, the gross profit margin for the first six months of 2007 declined from 20.9% to 15.9% of the comparative preceding period.

Although materials price and labour cost hike have posed some threat on the profit margin, the Group has managed the impact by further automating its production lines for automobile loudspeaker systems and implementing vertical integration plan to increase control of inputs and better quality control. In January 2007, as part of the vertical integration plan, the Group's new factory for further enhance the capabilities of manufacturing loudspeaker's components has started its operation in Suzhou, Mainland. 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. Through the economies of scale and the well-established relationship with renowned automobile and audio companies, the Group will further enhance its leading position in Mainland China.

Selling and distribution costs for the period slightly increased by 6% and administrative expenses increased by 46.4% during the review period. The substantial increase in the selling and distribution costs, and administrative expenses was primarily due to the inclusion of six-month expenses incurred by the Group's wholly-owned subsidiary in Canada compared to only two-month expenses incurred after the date of acquisition in April 2006. Besides, additional administrative expenses were incurred as a result of the newly established factory in Mainland China since January 2007.

Finance costs for the period increased by 73.8% mainly due to increase in bank borrowings in Mainland China and interest expense arising from the 8% convertible redeemable bonds issued in April 2006.

Overall, due to the new factories in Mainland China have yet to contribute revenue and profit to the Group, loss attributable to equity holders of approximately HK\$120,000 for the period was incurred. However, as the peak season for the industry traditionally falls from August and onwards, and in view of orders on hand, the Group is confident that sales and related profits will pick up quickly in the second half of year 2007.

Liquidity, Financial Resources and Treasury Policies

During the six-month period ended 30th June 2007, 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 2007, the Group had cash and bank deposits of approximately HK\$37,447,000 (As at 31st December 2006: approximately HK\$34,599,000).

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 2007 and 31st December 2006, the Group's current ratio was reduced from 1.01 to 0.92 and gearing ratio was increased from 1.45 to 1.82. As at 30th June 2007, the Group had total liabilities amounted to approximately HK\$254,215,000 included recurring short-term bank loans of approximately HK\$75,436,000 bearing interest at rates ranging from 4.20% to 7% per annum with repayment within a year and 8% convertible redeemable bonds at a principal amount of US\$5,000,000 (equivalent to approximately HK\$39,086,000).

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, Mainland China and Canada, denominated in Hong Kong dollars, Renminbi ("RMB"), U.S. dollars, European dollars ("Euros") and Canadian dollars ("CAD"). 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 2007, the Group has capital commitment of approximately HK\$8,452,000 in respect of the acquisition of property, plant and equipment (31st December 2006: approximately HK\$19,480,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established during the year 2006 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 30th June 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 30th June 2007, the Group did not have any significant contingent liabilities.

Material Acquisition/Disposals and Significant Investment

At present, the Group had no material acquisition and disposal of significant investment which would have been required to be disclosed under the GEM Listing Rules.

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\$89,432,000 for overdrafts and loan financing as at 30th June 2007. Unused bank facilities as at the same date amounted to approximately HK\$13,996,000. 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 December 2006 and 30th June 2007 is set out below:

	As at	
	30th June 2007	31st December 2006
Management and administration	84	68
Sales and marketing	45	40
Manufacturing and operations	1,497	1,370
Research and development	99	70
Quality assurance and quality control	150	126
Finance and accounting	14	14
	<hr/>	<hr/>
Total	1,889	1,688

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 2007 increased by 74.7% from approximately HK\$15,959,000 to approximately HK\$27,882,000 due to increase in number of employees and new factories commenced their operation in Mainland China during the review period and the inclusion of expenses for the first half year of 2007 incurred by the Group's wholly-owned subsidiary in Canada compared to that only two-month expenses incurred after the date of acquisition in April 2006. The Directors had received remuneration of approximately HK\$294,000 (2006: HK\$384,000) 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

The Directors and senior management continue to have an optimistic view on automobile industry, evidenced by China Association of Automobile Manufacturers' statistical information, Mainland China automobile companies exported more than 200,000 units of automobiles in the first half of 2007, up 71.30%, and strong demand growth for automobile supported by rising household incomes in Mainland China. Building on the Group's strengths and existing market share in Mainland China market, the Group will take further advantage of this wave in the automobile industry. The Group will further enrich the design of home theatres audio systems to match the needs of the hi-end audio market.

Several feasibility studies have begun to explore the possibility of future business alliance and establishment of subsidiary in overseas markets. The Group will continue to actively seek for ways and opportunities to further rationalize and restructure the Group's business, aiming at capturing the Group's market share in automobile industry and enhancing the Group's audio solution integration capabilities.

Since the organic growth in overseas markets is yet fully realized during the review period, leveraging the Group's excellent market position and strong competitive edge in overseas markets, the Group is negotiating with certain leading automobile manufacturers in the U.S. and European countries, the Board and senior management are confident that further market share will be captured in the near 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

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 30th June 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 30th June 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 30th June 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 (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:

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 June 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 30th June 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 3.69% 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 30/06/2007 '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	0.345	12,000

No share options have been granted to the Directors and employees during the period ended 30th June 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 10th August 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 30th June 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, 13th August 2007