



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 ended 30th September 2007 Third 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.

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

	Note	For the three-month period ended 30th September		For the nine-month period ended 30th September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	72,451	97,486	268,589	229,549
Cost of good sold		(53,957)	(78,368)	(218,760)	(182,786)
Gross profit		18,494	19,118	49,829	46,763
Other gains, net		315	228	750	527
Selling and distribution expenses		(4,278)	(3,209)	(11,447)	(9,958)
Administrative expenses		(12,283)	(9,929)	(32,270)	(23,100)
Operating profit		2,248	6,208	6,862	14,232
Finance costs		(1,906)	(530)	(5,350)	(2,511)
Profit before income tax	3	342	5,678	1,512	11,721
Income tax expense	4	(287)	(208)	(977)	(1,733)
Profit for the nine-month period		55	5,470	535	9,988
Attributable to:					
Equity holders of the Company		(812)	3,189	(1,632)	4,921
Minority interests		867	2,281	2,167	5,067
		55	5,470	535	9,988
(Loss) / earnings per share for (loss)/ profit attributable to the equity holders of the Company during the nine-month period					
– Basic (cents per share)	5	(0.250)	0.982	(0.502)	1.522
– Diluted (cents per share)	5	(0.249)	0.982	(0.500)	1.522
Dividends	6	–	–	–	–

CONDENSED 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 nine-month period	-	-	-	-	-	-	-	(1,632)	2,167	535
Translation adjustments	-	-	-	-	-	-	7,691	-	-	7,691
At 30th September 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>13,946</u>	<u>32,236</u>	<u>65,525</u>	<u>156,440</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 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
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>35,534</u>	<u>63,317</u>	<u>146,664</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 nine months ended 30th September 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 nine-month period ended 30th September	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	268,589	229,549
Other revenue		
Bank interest income	207	235
Sale of scrap materials	150	64
Others	393	228
Total revenue	269,339	230,076

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 45% of the Group's turnover for the nine-month period ended 30th September 2007 (2006: 47%) arose from the Group's top five customers.

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

For the nine-month period ended 30th September 2007							
	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*	4,897	72,320	12,956	140,524	14,313	23,579	268,589
Segment result	(1,896)	2,196	393	4,267	435	717	6,112
Unallocated income							750
Finance costs							(5,350)
Profit before taxation							1,512
Taxation							(977)
Profit after taxation and before minority interests							535
Minority interests							(2,167)
Loss attributable to shareholders							(1,632)
Depreciation and amortisation	1,050	7,844	-	685	-	-	9,579

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

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*	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.

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 2006 and 2007.

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	
	2007	2006
	HK\$'000	HK\$'000
Overseas		
– Current taxation	1,345	3,948
– Overprovided China enterprise income tax recognised in the prior year	–	(1,509)
– Deferred taxation	(368)	(706)
	977	1,733
Taxation charges	977	1,733

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.

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 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 profits (2006: Nil) for the subsidiaries operating in Hong Kong during the nine-month period.

5. **(LOSS)/EARNINGS PER SHARE**

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

	For the three months ended 30th September		For the nine months ended 30th September	
	2007	2006	2007	2006
(Loss) / profit attributable to equity holders of the Company (in HK\$'000)	(812)	3,189	(1,632)	4,921
Weighted average number of ordinary shares in issue	325,089,974	324,784,019	325,089,974	323,206,870
Basic (loss) / earnings per share (HK cent per share)	<u>(0.250)</u>	<u>0.982</u>	<u>(0.502)</u>	<u>1.522</u>
Weighted average number of ordinary shares in issue	325,089,974	324,784,019	325,089,974	323,206,870
Adjustment for share options	1,047,619	–	1,047,619	–
Weighted average number of ordinary shares for diluted (loss) / earnings per share	<u>326,137,593</u>	<u>324,784,019</u>	<u>326,137,593</u>	<u>323,206,870</u>
Diluted (loss) / earnings per share (HK cent per share)	<u>(0.249)</u>	<u>0.982</u>	<u>(0.500)</u>	<u>1.522</u>

6. **DIVIDENDS**

The Directors do not recommend the payment of an interim dividend during the nine-month period ended 30th September 2007 (2006: Nil).

OVERALL REVIEW

During the review period, according to information compiled by China Association of Automobile Manufacturers, China's automobile sale of sedan amounted to 3.4387 million units in the third quarter of 2007, up 25.76% 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 China, the Group's sale for automobile loudspeaker systems in China increased by 30.8%. Sale of loudspeaker systems for automobile for overseas markets increased by 9.5%. Automobile loudspeaker systems remained as the Group's major revenue stream, accounted for 56.5% of its total turnover. 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 16.6% 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 and new audio market in China and Europe. During the review period, sale of home theatre audio systems increased by 93%.

The Group's gross profit margin was slightly decreased during the review period resulting from the severe market competition in home theatre industry together with the continuous increase in raw materials, such as plastic, paper and copper, and other manufacturing overhead such as wages and salaries for workers. Besides, some of the major components for the new products launched next year were purchased from third party rather than self-produced. New factory for new components such as electroplating for speaker's metal parts were still under testing and development. The directors believed that the relative fixed manufacturing overhead will be absorbed by substantial increase in production volume and material costs will be further reduced by implementing the Group's vertical integration plan, the Group's profit margin will gradually improve.

In January 2007, as part of the Group's vertical integration and product diversification plan, a new factory and a new division for automotive electronic started its operation in China. Operating cost was unavoidably increased following initial cost in rolling out several major projects during the review period. In addition, there was six-month expenses incurred by the Canadian wholly-owned subsidiary in the year 2006 versus nine-month expenses recognized for the review period of 2007, the Group's selling and marketing costs and administrative expenses for the nine-month period ended 30th September 2007 increased by 32.2%.

Finance costs for the period increased by 113% due to additional bank borrowings in China for production capabilities expansion and interest expense arising from the 8% convertible redeemable bonds issued in April 2006.

A newly incorporated subsidiary, Sonavox Europe GmbH, was established in Germany. The new subsidiary in Germany consists of engineers who will provide customers with after-sales services and engineering support services. The directors believed that this newly incorporated subsidiary will help the Group to better serve the existing customers in Europe and potentially increase the Group's revenue from this market.

Liquidity, Financial Resources and Treasury Policies

During the nine-month period ended 30th September 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 September 2007, the Group had cash and bank deposits of approximately HK\$37,003,000 (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 September 2007 and 31st December 2006, the Group's current ratio was reduced from 1.01 to 0.93 and gearing ratio was increased from 1.45 to 1.62. As at 30th September 2007, the Group had total liabilities amounted to approximately HK\$254,537,000 included recurring short-term bank loans of approximately HK\$80,147,000 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 million).

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 North America, denominated in Hong Kong dollars ("HKD"), 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 September 2007, the Group has capital commitment of approximately HK\$16,215,000 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\$2,050,000 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 HKD, 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\$104,391,000 for overdrafts and loan financing as at 30th September 2007. Unused bank facilities as at the same date amounted to approximately HK\$24,262,000. 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 September 2007 is set out below:

	As at	
	30th September 2007	31st December 2006
Management and administration	71	68
Sales and marketing	40	40
Manufacturing and operations	1,551	1,370
Research and development	21	70
Quality assurance and quality control	149	126
Finance and accounting	14	14
	<hr/>	<hr/>
Total	1,846	1,688
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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 two new factories in China and 8.7% increase in statutory wages level for workers in China and not less than 10% increase in salaries for high skilled labour together with the inclusion of wages and salaries for the first nine month for 2007 incurred by the Canadian subsidiary compared to that only six-month wages and salaries incurred since the date of acquisition in April 2006, total remuneration incurred for the nine-month period ended 30th September 2007 therefore increased by 45% from approximately HK\$32,321,000 to approximately HK\$46,864,000. The executive directors and independent non-executive directors of the Company had received remuneration of approximately HK\$225,000 (2006: HK\$330,000) and approximately HK\$216,000 (2006: HK\$216,000) 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 not less than 30 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 continuously 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.

Several feasibility studies have begun to explore the possibility of future business alliance in China. 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 and audio industry.

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 future.

OTHER INFORMATION

Purchase, sale or redemption of shares

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

Pre-emptive rights

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

Connected transactions

During the period, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("the GEM Listing Rules").

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

As at 30th September 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 <i>(Note)</i>	Corporate	Interest of a controlled corporation	240,000,000	73.83%
Mr. Yang Ching Yau <i>(Note)</i>	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 September 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 September 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 (<i>Note 2</i>)	Interest of spouse	Share option	2,000,000	0.615%
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 2007, the director 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 director, 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 director, 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 director 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 (the “Scheme”). 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 September 2007, the number of shares of the Company in respect of which options had remained outstanding under the 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 30/09/2007 '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
		<u>12,000</u>	<u>–</u>	<u>–</u>	<u>12,000</u>	
Exercisable at the end of the period					<u>12,000</u>	

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 30th September 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 13th November 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.

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 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
Chief Executive Officer
Executive Director

Hong Kong, 14th November 2007

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