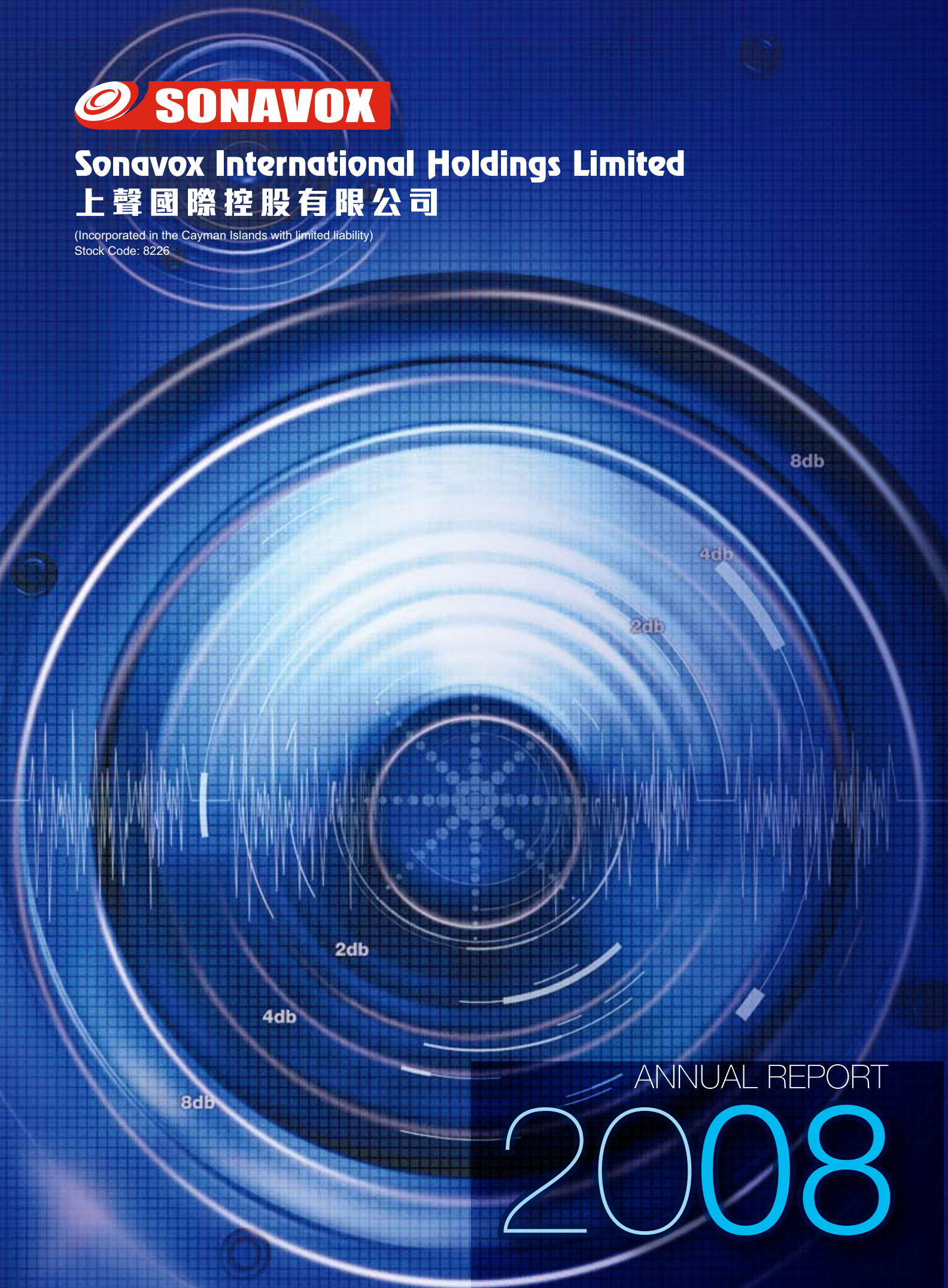




# Sonavox International Holdings Limited 上聲國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8226



ANNUAL REPORT

# 2008

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (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.*



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## CORPORATE INFORMATION

### **DIRECTORS**

#### **Executive Directors**

Mr. Yang Tsu Ying (*Board Chairman*)  
Mr. Yang Ching Yau (*Chief Executive Officer*)

#### **Independent Non-executive Directors**

Mr. Yiu Chi Wah  
Mr. Fan Chi Fai, Paul  
Mr. Lee Fang Yu

### **COMPANY SECRETARY**

Mr. Chan Chi Hung

### **AUDIT COMMITTEE**

Mr. Fan Chi Fai, Paul (*Committee's Chairman*)  
Mr. Yiu Chi Wah  
Mr. Lee Fang Yu

### **NOMINATION COMMITTEE**

Mr. Yang Ching Yau (*Committee's Chairman*)  
Mr. Yiu Chi Wah  
Mr. Lee Fang Yu

### **REMUNERATION COMMITTEE**

Mr. Yiu Chi Wah (*Committee's Chairman*)  
Mr. Lee Fang Yu  
Mr. Fan Chi Fai, Paul  
Mr. Yang Ching Yau

### **AUTHORISED REPRESENTATIVES**

Mr. Yang Ching Yau  
Mr. Chan Chi Hung

### **REGISTERED OFFICE**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

14th Floor  
Kam Sang Building  
255-257 Des Voeux Road Central  
Hong Kong

### **COMPLIANCE OFFICER**

Mr. Yang Ching Yau

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Union Registrars Limited  
Rooms 1901-02  
Fook Lee Commercial Centre  
Town Place, 33 Lockhart Road  
Wanchai  
Hong Kong

### **AUDITORS**

SHINEWING (HK) CPA Limited

### **PRINCIPAL BANKERS**

The Hong Kong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Bank SinoPac

### **LISTING INFORMATION**

The Growth Enterprise Market of the Stock of Exchange of Hong Kong Limited  
Stock code: 8226

### **COMPANY'S WEBSITE**

[www.sonavox.com.hk](http://www.sonavox.com.hk)

## FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published consolidated income statements and balance sheets of the Group:

**CONSOLIDATED INCOME STATEMENTS**

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Turnover	205,552	234,288	369,302	422,204	<b>392,305</b>
Cost of goods sold	(152,512)	(189,686)	(306,103)	(353,702)	<b>(329,293)</b>
Gross profit	53,040	44,602	63,199	68,502	<b>63,012</b>
Other revenue	266	567	4,805	2,695	<b>17,340</b>
Selling and marketing costs	(9,440)	(12,591)	(15,403)	(16,434)	<b>(13,721)</b>
Administrative expenses	(10,602)	(20,295)	(34,024)	(50,929)	<b>(64,186)</b>
Finance costs	(1,291)	(1,548)	(6,711)	(11,100)	<b>(11,808)</b>
Profit/(loss) before taxation	31,973	10,735	11,866	(7,266)	<b>(9,363)</b>
Taxation	(9,360)	(5,920)	(3,156)	1,704	<b>(1,549)</b>
Profit/(loss) after taxation	22,613	4,815	8,710	(5,562)	<b>(10,912)</b>
Minority interests	(12,527)	(4,792)	(5,108)	(134)	<b>1,531</b>
Profit/(loss) attributable to equity holders of the Company	10,086	23	3,602	(5,696)	<b>(9,381)</b>

**CONSOLIDATED BALANCE SHEETS**

	2004 HK\$'000 (Restated)	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Total assets	209,900	228,602	362,940	415,508	<b>421,659</b>
Total liabilities	(85,374)	(95,604)	(214,726)	(256,662)	<b>(258,894)</b>
Total assets less total liabilities	124,526	132,998	148,214	158,846	<b>162,765</b>
Minority interests	(53,432)	(58,250)	(63,358)	(70,706)	<b>(75,700)</b>
Equity attributable to equity holders of the Company	71,094	74,748	84,856	88,140	<b>87,065</b>

## CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Sonavox International Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2008.

### OVERVIEW

Year 2008 has been a challenging year for the Group. As a result of outbreak of the US sub-prime mortgage crisis during second half of 2007 which grown into a global financial turmoil, there has had an unprecedented negative effect on business environment worldwide. The financial turmoil has led to volatility in currency, rising costs of raw materials and tightening of credit condition. The financial stresses have remained and economic conditions have deteriorated throughout the world. The Group's performance in 2008 was undoubtedly affected. During the year under review, the Group recorded a turnover of HK\$392.3 million (2007: HK\$422.2 million), representing a decrease of 7%, when compared with that of last year.

Despite the challenging economic environment, the Group successfully expanded its sales in the Europe market during the year under review, with supports from the Group's new sales office in Germany. Sales of loudspeaker systems in the region of European Union have been grown significantly by 45% to HK\$47.1 million in 2008 (2007: HK\$32.4 million). Apart from this, the Group continued to strengthen its business performance in all markets. In particular, China became the most important market of the Group, and sales of loudspeaker systems in the China market contributed 39% of the Group's turnover during the year (2007: 36%).

### PROSPECTS

Moving forward, we expect the year ahead to be challenging. Chinese government has implemented a number of forceful measures to stimulate the economy and boost domestic consumption. According to latest statistics from the China Association of Automobile Manufacturers, China's auto sales rebounded and increased by 24% in February 2009 to 827,600 units, from the same month a year earlier. This indicated a sign of recovery of automotive market in China. We are confident that with our solid foundation, times of challenge bring opportunity for the Group to break away from our competitors and take our business to the next level of market leadership in the China automobile industry. For overseas automobile loudspeaker markets, we believe the Group will be benefited from continuous establishment of business relationships with leading automakers around the world. We will also continue to improve operational effectiveness in order to drive our business for continued growth.

In respect of consumer electronics market, our strong research and development capacities in China and Canada enabled us to launch new and competitive multimedia and home theatre products for our renowned customers in audio industry. This will constitute continuous growth and bring future revenue to the Group. The Group will strive to further enlarge market, enhance productivity and expand sales.

### APPRECIATION

I was very pleased to welcome the new independent non-executive director, Mr. Lee Fang Yu, bringing in his wide experience and vision to the Group. As we had previously announced, Mr. Wong Kai Tung, Simon resigned as an independent non-executive director of the Company on 14th July 2008. Mr. Wong has made a strong and valuable contribution to the Company and I would like to thank him for his these years of dedicated service.

On behalf of the Board, I would like to thank our fellow shareholders and business partners for their continued support and co-operations for the past years, and also our customers for their business and for putting their trust in us. I would also like to extend my gratitude to all our management teams and staff members for their hard work and commitment and we are grateful for their tremendous effect and enthusiasm during the year.

**Yang Tsu Ying**  
Chairman

Hong Kong, 25th March 2009

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***BUSINESS REVIEW***

During the year under review, the Group continued to strengthen its performance of main streams line of business, including manufacturing and sale of quality and high performance loudspeaker systems to leading global automobiles and consumer electronics companies.

Amid downturns of US and European markets, the business environment remains competitive and challenging. However, the Group has been benefited from establishing business relationships with new customers in overseas market, such as Audi. The Group also continued to maintain its leading loudspeaker manufacturer position in the China market with customers such as Shanghai Volkswagen and DongFeng Peugeot Citroen Automobile. Sales of loudspeaker systems for automobiles was increased by 3.1% to approximately HK\$268.8 million for the year ended 31st December 2008 (2007: approximately HK\$260.6 million), which accounted for approximately 69% (2007: approximately 62%) of its total turnover.

During the year under review, the Group recorded sales of approximately HK\$123.5 million (2007: HK\$161.6 million) from sales of loudspeaker systems for home theatre. The decrease was mainly attributable to cessation of non-profitable businesses with some customers. Gross profit ratio of sales of loudspeaker systems for home theatre was improved and increased to about 14.8% (2007: 10.8%) for the year.

The world has been hit by a financial crisis, and the Group cannot be immune to that. The Group was well prepared to face the coming challenges. Based on experience and establishments of the past, the management team of the Group has high level of commitment to achieve ambitious targets in the coming years.

### ***FINANCIAL REVIEW***

For the year ended 31st December 2008, the Group kept its steady performance, and achieved a turnover of approximately of HK\$392.3 million (2007: HK\$422.2 million). The gross profit margin ratio for the year ended 31st December 2008 was about 16.1%, while it was about 16.2% in the previous year.

The Group recorded loss before taxation of approximately HK\$9.4 million for the year ended 31st December 2008 (2007: HK\$7.3 million). Increase in the Group's total expenses was mainly attributable to commencement of operations of subsidiaries in China and Germany in 2007. Finance costs increased by 6.4% from approximately HK\$11.1 million in last year to HK\$11.8 million in this year, as a result of additional bank loans obtained in China for production capabilities expansion during the year under review.

### ***LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES***

For the year ended 31st December 2008, the Group's major business operations took place in China and Canada, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 31st December 2008, the Group had cash and bank deposits of approximately HK\$27,909,000 (2007: HK\$25,190,000). The Group's current ratio stood at 0.9 at 31st December 2008 and 2007. The increase in cash and bank deposits was primarily attributable to the increase in corporate borrowings during the year under review. The Group had bank overdrafts of approximately HK\$4,338,000 (2007: HK\$9,269,000) bearing interest rates at CAD prime lending rate plus 0.75% per annum and short-term bank loans of approximately HK\$86,696,000 (2007: HK\$66,912,000) bearing interest rates ranging from 2.05% to 8.14% per annum with repayment within a year.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### ***CAPITAL COMMITMENT AND CONTINGENT LIABILITIES***

As at 31st December 2008, the Group has capital commitment of approximately HK\$134,000 (2007: HK\$15,639,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK\$3,578,000 (2007: HK\$4,784,000).

Suzhou Shangsheng Technology Co. Ltd. and Suzhou Hesheng Industries Co., Ltd. were established with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st December 2008, the Company had outstanding commitments of approximately US\$3,931,000 and US\$2,050,000 respectively for capital contribution to these two subsidiaries.

As at 31st December 2008, the Group did not have any significant contingent liabilities.

### ***MATERIAL ACQUISITION/DISPOSALS AND SIGNIFICANT INVESTMENT***

The Group had no material acquisition which would have been required to be disclosed under the GEM Listing Rules.

At present, the Group has no future plan for material 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, Euro ("EUR") and CAD during the year. The Group is subject to foreign exchange exposure in USD, EUR and CAD. However, the Group was able to partially mitigate the foreign exchange impact by entering sale transactions with overseas customers denominated in RMB and entering purchase contracts 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\$121,971,000 for overdrafts and loan financing as at 31st December 2008. Unused bank facilities as at the same date amounted to approximately HK\$19,000,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group.

### ***DIVIDEND***

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2008.



## MANAGEMENT DISCUSSION AND ANALYSIS

### NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31st December 2008 and 2007 were set out below:

	2008	2007
Management and administration	95	69
Sales and marketing	56	43
Manufacturing and operations	1,269	1,612
Research and development	59	91
Quality assurance and quality control	135	150
Finance and accounting	13	14
Total	<b>1,627</b>	<b>1,979</b>

### REMUNERATION OF EMPLOYEES AND POLICIES

The Group recognises that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance.

The Group enjoys good relations with staff and has not experienced any disruption of 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, Hong Kong and Canada in relation thereto including contributions to society security scheme of the Mainland China, the Mandatory Provident Fund Scheme of Hong Kong and the Canadian Pension Plan of Canada.

Total employee benefit expense incurred for the year ended 31st December 2008 increased to approximately HK\$77,050,000 (2007: HK\$68,662,000) mainly due to appreciation of RMB, as well as statutory salary and pension costs increased for workers and managerial staffs in China during the year under review. The Company's directors had received remuneration of approximately HK\$662,000 (2007: HK\$613,000) during the year ended 31st December 2008.

### TRAINING SCHEMES

The Group provides on-going training programmes for its employees to keep them abreast of the latest market trends and new technologies of loudspeaker systems, and also to enhance their knowledge on latest international quality standards. During the year, the Group provided different training programmes to its staffs to sharpen their management skills and techniques.

## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### ***EXECUTIVE DIRECTORS***

**Mr. Yang Tsu Ying**, aged 75, is the chairman of the company and one of the founders of the Group. He has over thirty years of experience in manufacturing and trading of loudspeaker systems in overseas markets and over ten years of experience in manufacturing and trading of loudspeaker systems in the Mainland China. He is responsible for the development of the overall corporate policy and strategies as well as overseeing the Group's operation management.

**Mr. Yang Ching Yau**, aged 39, is the chief executive officer and one of the founders of the Group. He has over seventeen years of experience in the sales, engineering, marketing and manufacturing of loudspeaker systems. He is responsible for the sales and marketing, operations and corporate finance of the Group. He is the son of Mr. Yang Tsu Ying.

### ***INDEPENDENT NON-EXECUTIVE DIRECTORS***

**Mr. Yiu Chi Wah**, aged 45, joined the Group in July 2002, and has over sixteen years of experience in finance and investment advisory affairs. He holds a bachelor's degree in arts with National Taiwan University in Taiwan and had worked for Polaris Securities (Hong Kong) Limited as a dealing director and an investment adviser registered under the Securities Ordinance.

**Mr. Fan Chi Fai, Paul**, aged 47, joined the Group in September 2004, and is a member of Institute of Chartered Accountants in England and Wales. Mr. Fan works as Head of Finance and Operations of an international media company. Mr. Fan has obtained an honour degree in Bachelor of Accountancy, Finance and Economics from the University of Essex, U.K..

**Mr. Lee Fang Yu**, aged 47, was appointed as an independent non-executive director of the Company on 14 July 2008. Mr. Lee graduated from the Department of Civil Engineering of the Chinese Junior College of Industrial and Commercial Management in Taiwan in 1981. Mr. Lee has more than twenty years of experience in the industry of construction. He had been a marketing manager and an assistant vice president in different construction companies. Mr. Lee has been the president of Chuan Yi Construction Co., Ltd. Since 1992.

## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### SENIOR MANAGEMENT

**Mr. Zhou Jian Ming**, aged 51, is the general manager of subsidiaries in Mainland China. He is responsible for the general administration of all subsidiaries in Mainland China. He obtained a master's degree in business administration from Nanjing University in Mainland China. He has extensive experience in enterprise management and has over sixteen years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無綫電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in Mainland China and overseas.

**Mr. Pan Hui Hua**, aged 53, is the production manager and assistant general manager of subsidiaries in Mainland China. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over twenty years of experience in the development and production of loudspeaker systems. Mr. Pan had worked for Likou Town Government Industrial Co. ("LTGIC") (蠡口鎮政府工業總公司) as manager and was responsible for monitoring the operations of factories under the control of LTGIC.

**Mr. Joe Riggi**, aged 44, is the president of Sonavox Canada Inc. ("SCI"), subsidiary in Canada. Mr. Riggi joined SCI in 1986 and has been in a senior management role for more than ten years. He holds an Engineering Technologist Degree with DeVry University in Canada and is one of the active members of the Young President's Organisation ("YPO") group. Mr. Riggi is currently responsible for the operation of SCI and implementation of product development and sales and marketing of the Group.

**Mr. Chan Chi Hung**, aged 33, joined the Group in July 2008 and is the chief financial officer and the company secretary of the Group. Mr. Chan is responsible for the overall financial and accounting management of the Group. Mr. Chan holds a bachelor degree in Business Administration in Accounting from The Hong Kong University of Science and Technology in 1997. He is a member of Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over eleven years of experience in auditing and accounting areas and worked for a private and a listed company at management level before joining the Group.

## CORPORATE GOVERNANCE REPORT

The Board and senior management are committed to maintaining a high standard of corporate governance practices with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders. The Board believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The Board is of the view that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") to the Appendix 15 of the GEM Listing Rules throughout the year ended 31st December 2008, except that independent non-executive Directors had no set term of office but retire on a rotation basis.

### ***DIRECTORS' SECURITIES TRANSACTIONS***

The Company has adopted a code of conduct regarding securities transactions by directors of the Company (the "Directors") on terms no less exacting than the required standard of dealing as set out in rules 5.47 to 5.67 of the GEM Listing Rules throughout the year ended 31st December 2008. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31st December 2008.

### ***BOARD OF DIRECTORS***

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholder value.

The Board, led by the chairman of the Company, Mr. Yang Tsu Ying (the "Chairman"), is responsible for the approval and monitoring of Group wide strategies and policies, approval of business plans and oversight of senior management. The senior management is responsible for the day-to-day operations of the Group under the leadership of the chief executive officer of the Company (the "CEO"), Mr. Yang Ching Yau.

As at 31st December 2008, the Board comprised two executive Directors namely Mr. Yang Tsu Ying and Mr. Yang Ching Yau; and three independent non-executive Directors namely Mr. Yu Chi Wah, Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu. Biographical details of the Directors referred to page 8 of this annual report.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

The roles of the Chairman and the CEO are segregated and are not exercised by the same individual. Such division of responsibilities helps to reinforce their independence and accountability.



## CORPORATE GOVERNANCE REPORT

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of CEO and the company secretary of the Company, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The CEO is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of the Group's policies and assuming full accountability to the Board for all business operations. The CEO develops strategic plans and is directly responsible for maintaining the operational performance of the Group. Working with the senior management of the Group, the CEO ensures that the Board is fully informed of the requirements of the businesses of the Group and presents business and financial information to the Board for consideration and approval.

The CEO closely monitors the operating and financial results against plans and budgets, taking remedial actions when necessary and advising the Board of significant developments and issues. He maintains an ongoing dialogue with the Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

Board meeting is held at least 4 times a year and as when required by the CEO. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held five regular meetings during the year ended 31st December 2008. The attendance record of each Director is as follows:

	<b>Number of Board meetings attended/eligible to attend</b>
<b>Executive Directors:</b>	
Mr. Yang Tsu Ying	5/5
Mr. Yang Ching Yau	5/5
<b>Independent non-executive Directors:</b>	
Mr. Yiu Chi Wah	5/5
Mr. Wong Kai Tung, Simon (resigned on 14th July 2008)	3/3
Mr. Fan Chi Fai, Paul	3/5
Mr. Lee Fang Yu (appointed on 14th July 2008)	2/2

## CORPORATE GOVERNANCE REPORT

Save for the Chairman, all Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

### **REMUNERATION OF DIRECTORS**

The remuneration committee currently comprises three independent non-executive Directors, namely Mr. Yiu Chi Wah, Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu and one executive Director, namely Mr. Yang Ching Yau. Mr. Yiu Chi Wah is the chairman of the remuneration committee. The principal responsibilities of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

One meeting of the remuneration committee has been held during the year. All members of the remuneration committee attended the meeting.

### **NOMINATION OF DIRECTORS**

The nomination committee currently comprises one executive Director, namely Mr. Yang Ching Yau and two independent non-executive Directors, namely Mr. Yiu Chi Wah and Mr. Lee Fang Yu. Mr. Yang Ching Yau is the chairman of the nomination committee. The works carried out by the nomination committee members are set out below:

The works carried out by the nomination committee members are set out below:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;
- (b) to assess the suitability and qualification of candidates put forward by the CEO and to become new board members and to report to the Board on their assessment;
- (c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and
- (d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the CEO.

One meeting of the remuneration committee has been held during the year. All members of the remuneration committee attended the meeting.

## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and one independent non-executive Director who possess the appropriate business and financial experience and skills to understand financial statements. The audit committee is chaired by Mr. Fan Chi Fai, Paul, and the other audit committee members are Mr. Yiu Chi Wah and Mr. Lee Fang Yu.

Under its terms of reference for audit committee passed under a directors' resolution dated 28th June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

During the year ended 31st December 2008, four meetings of the audit committee have been held for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors, with the following attendances:

	<b>Number of meetings attended/eligible to attend</b>
Mr. Fan Chi Fai, Paul	4/4
Mr. Yiu Chi Wah	4/4
Mr. Wong Kai Tung, Simon (resigned on 14th July 2008)	2/2
Mr. Lee Fang Yu (appointed on 14th July 2008)	2/2

### ACCOUNTABILITY AND AUDIT

The Board acknowledged their responsibility for preparing the financial statements of the Group and ensured the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the auditors of the Company about their responsibilities on the financial statement of the Group is set out in the report of the auditors.

### INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system ("ICS") of the Group. The Group adopted a risk-based approach and methodology according to COSO (Committee of Sponsoring Organizations of Treadway Commission) and "Internal Control and Risk Management – A Basic Framework" released by HKICPA to assess the effectiveness of ICS of the Group. The ICS is designed to provide reasonable assurance against material misstatement or substantial loss, and to mitigate risk to a level that is acceptable to the audit committee members. The audit committee members play a major role in monitoring the ICS of the Group. It has unrestricted access to review all aspects of the Group's activities and ICS.

### AUDITORS' REMUNERATION

For the year ended 31st December 2008, auditors' remuneration of HK\$420,000 is payable to SHINEWING (HK) CPA Limited for annual audit services. No other non-audit related services were performed by SHINEWING (HK) CPA Limited.

## REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31st December 2008.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 40 to the financial statements.

### **RESULTS AND DIVIDENDS**

Results of the Group for the year ended 31st December 2008 are set out in the consolidated income statement on page 22.

The Directors do not recommend the payment of any dividends in respect of the year (2007: Nil).

### **FINANCIAL SUMMARY**

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of the movements in share capital and share options of the Company during the year are set out in notes 33 and 36 respectively to the consolidated financial statements.

### **RESERVES**

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 25.

### **DIRECTORS**

The Directors during the year and up to the date of this report are:

#### **Executive directors:**

Mr. Yang Tsu Ying (*Chairman*)

Mr. Yang Ching Yau (*Chief Executive Officer*)

#### **Independent non-executive directors:**

Mr. Yiu Chi Wah

Mr. Wong Kai Tung, Simon (resigned on 14th July 2008)

Mr. Fan Chi Fai, Paul

Mr. Lee Fang Yu (appointed on 14th July 2008)

In accordance with articles 108(A) of the articles of association of the Company, Mr. Yang Ching Yau and Mr. Yiu Chi Wah shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 112 of the articles of association of the Company, Mr. Lee Fang Yu shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.



## REPORT OF THE DIRECTORS

Mr. Yiu Chi Wah and Mr. Fan Chi Fan, Paul are not appointed for specific contracted terms but are subject to retirement by rotation in accordance with the articles of association of the Company. Mr. Lee Fang Yu was appointed for a one year term expiring on 14th July 2009.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

### ***DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES***

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 9 of this annual report.

### ***DIRECTORS' INTEREST IN CONTRACTS***

Save as disclosed in note 35 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### ***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 year.

### ***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES OR DEBENTURES***

As at 31st December 2008, the interests and short positions of the Directors and chief executives of the Company 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 Rules 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**

<b>Name of Director</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of interest</b>
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.

## REPORT OF THE DIRECTORS

### (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 above, as at 31st December 2008, 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 Rules 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 December 2008, 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%

## REPORT OF THE DIRECTORS

### 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 December 2008, 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.

### SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 36 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year.

Name or category of participant	Outstanding at 1st December 2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31st December 2008	Exercisable period	Exercise price per share of the Company HK\$
(a) Director							
Mr. Yang Tsu Ying	2,000,000	-	-	-	2,000,000	28th June 2006 to 27th June 2015	0.345
Mr. Yang Ching Yau	2,000,000	-	-	-	2,000,000	28th June 2006 to 27th June 2015	0.345
(b) Others in aggregate	8,000,000	-	-	(2,000,000)	6,000,000	28th Jun 2006 to 27th June 2015	0.345
	<b>12,000,000</b>	<b>-</b>	<b>-</b>	<b>(2,000,000)</b>	<b>10,000,000</b>		

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 36 to the consolidated financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## REPORT OF THE DIRECTORS

### **CONNECTED/RELATED PARTY TRANSACTIONS**

On 28th February 2007, Suzhou Sonavox Acoustics Co. Ltd. ("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, subwoofer and tweeter systems from Sonavox Electronics. For the year ended 31st December 2008, there was no purchases from Asian Elite and Sonavox Electronics by Sonavox Acoustics under the Agreements.

Details of the connected/related party transactions of the Group are set out in note 35 to the consolidated financial statements.

### **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, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited, Asian Elite 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.

### **EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUAL**

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 17 to the consolidated financial statements.

### **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set out by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors is decided by the remuneration committee of the Company, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share options scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 36 to the consolidated financial statements.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December 2008, the five largest customers accounted for approximately 40% (2007: approximately 39%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 27% (2007: approximately 26%) of the Group's total purchases. The largest customer of the Group accounted for approximately 20% (2007: approximately 24%) of the Group's total turnover while the largest supplier accounted for approximately 16% (2007: approximately 14%) of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.



## REPORT OF THE DIRECTORS

### ***PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY***

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

### ***PRE-EMPTIVE RIGHTS***

There is no provision for pre-emptive rights under the articles of association of the Company, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### ***SUFFICIENCY OF PUBLIC FLOAT***

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

### ***CORPORATE GOVERNANCE REPORT***

Details of the corporate governance report are set out on pages 10 to 13 of the annual report.

### ***INDEPENDENT NON-EXECUTIVE DIRECTORS***

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to rule 5.09 of the GEM Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive Directors are independent.

### ***AUDIT COMMITTEE***

The Company has an audit committee which was established in accordance with the requirements of the CG Code as defined in the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises Mr. Fan Chi Fai, Paul, Mr. Yiu Chi Wah and Mr. Lee Fang Yu who are the independent non-executive Directors. The audit committee of the Company has reviewed and discussed the financial reporting matters including the annual results for the year ended 31st December 2008 with the management and the external auditors.

### ***AUDITORS***

The consolidated financial statements have been audited by SHINEWING (HK) CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Yang Tsu Ying**  
*Chairman*

25th March 2009

## INDEPENDENT AUDITOR'S REPORT



**SHINEWING** (HK) CPA Limited  
16/F., United Centre  
95 Queensway, Hong Kong

**TO THE SHAREHOLDERS OF  
SONAVOX INTERNATIONAL HOLDINGS LIMITED**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sonavox International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 76, which comprise the consolidated balance sheet as at 31st December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS***

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***AUDITOR'S RESPONSIBILITY***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **EMPHASIS OF MATTER**

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group had net current liabilities of approximately HK\$29,710,000 as at 31st December 2008. The Group had incurred loss attributable to equity holders of the Company for the year ended 31st December 2008 amounted to approximately HK\$9,381,000. These conditions indicated the existence of a material uncertainty which may cast doubt about the Group's ability to continue as going concern.

### **SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Chan Wing Kit**

Practising Certificate Number: P03224

Hong Kong  
25th March 2009

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
Turnover	8	392,305	422,204
Cost of goods sold		(329,293)	(353,702)
Gross profit		63,012	68,502
Other revenue	9	12,892	2,662
Fair value changes on embedded derivative financial instrument	32	4,448	33
Selling and marketing costs		(13,721)	(16,434)
Administrative expenses		(64,186)	(50,929)
Finance costs	11	(11,808)	(11,100)
Loss before taxation	12	(9,363)	(7,266)
Taxation	13	(1,549)	1,704
Loss for the year		(10,912)	(5,562)
Attributable to:			
Equity holders of the Company		(9,381)	(5,696)
Minority interests		(1,531)	134
		(10,912)	(5,562)
Loss per share	14		
– Basic		(HK cent 2.89)	(HK cent 1.75)
– Diluted		N/A	N/A
Dividends	15	–	–



## CONSOLIDATED BALANCE SHEET

As at 31st December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	18	191,547	167,147
Prepaid lease payments	19	15,946	12,356
Deferred tax assets	20	6,294	10,347
Intangible assets	21	15,746	21,532
Goodwill	22	4,966	6,316
		<b>234,499</b>	217,698
<b>Current assets</b>			
Inventories	23	57,470	53,730
Trade and note receivables	24	88,359	105,508
Prepayments, deposits and other receivables		9,542	11,490
Prepaid lease payments	19	380	293
Amount due from a minority shareholder of a subsidiary	25	3,500	246
Pledged bank deposits	26	6,109	–
Restricted bank balances	26	9,040	–
Cash and bank balances	26	12,760	25,190
Deferred tax assets	20	–	1,353
		<b>187,160</b>	197,810
<b>Current liabilities</b>			
Trade and note payables	27	84,909	101,238
Accruals and other payables		29,988	28,226
Amount due to ultimate holding company	28	5,604	–
Obligations under finance leases – due within one year	29	134	326
Bank borrowings - due within one year	30	91,136	76,262
Derivative financial instrument	31	27	–
Embedded derivative financial instrument	32	2,145	6,593
Tax payable		2,927	3,403
		<b>216,870</b>	216,048
<b>Net current liabilities</b>		<b>(29,710)</b>	(18,238)
<b>Total assets less current liabilities</b>		<b>204,789</b>	199,460

## CONSOLIDATED BALANCE SHEET

As at 31st December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
<b>Capital and reserves</b>			
Share capital	33	3,251	3,251
Reserves		83,814	84,889
Equity attributable to equity holders of the Company		87,065	88,140
Minority interests		75,700	70,706
<b>Total equity</b>		<b>162,765</b>	158,846
<b>Non-current liabilities</b>			
Obligations under finance leases			
– due after one year	29	51	231
Deferred tax liabilities	20	2,504	1,892
Bank borrowings – due after one year	30	2,265	2,382
Convertible bonds	32	37,204	36,109
		42,024	40,614
		204,789	199,460

The consolidated financial statements on pages 22 to 76 were approved and authorised for issue by the Board of Directors on 25th March 2009 and are signed on its behalf by :

**YANG TSU YING**  
*Chairman*

**YANG CHING YAU**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

	Attributable to equity holders of the Company										
	Share capital	Share premium	Property revaluation reserve	Statutory reserves (note a)	Share-based payment reserve	Merger reserve (note b)	Cumulative translation adjustment reserve	Accumulated profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2007	3,251	27,682	2,598	6,813	1,948	2,441	6,255	33,868	84,856	63,358	148,214
Transfer to statutory reserves	-	-	-	437	-	-	-	(437)	-	-	-
Translation adjustments	-	-	-	-	-	-	8,980	-	8,980	7,214	16,194
Net income/(expense) recognised directly in equity	-	-	-	437	-	-	8,980	(437)	8,980	7,214	16,194
(Loss)/profit for the year and total recognised income and expense for the year	-	-	-	-	-	-	-	(5,696)	(5,696)	134	(5,562)
At 31st December 2007 and 1st January 2008	3,251	27,682	2,598	7,250	1,948	2,441	15,235	27,735	88,140	70,706	158,846
Cancellation of share options previously granted	-	-	-	-	(325)	-	-	325	-	-	-
Surplus on revaluation of properties	-	-	9,936	-	-	-	-	-	9,936	8,251	18,187
Effect of change in tax rate	-	-	322	-	-	-	-	-	322	309	631
Deferred tax liabilities arising on revaluation of properties (note 20)	-	-	(2,184)	-	-	-	-	-	(2,184)	(2,035)	(4,219)
Translation adjustments	-	-	-	-	-	-	232	-	232	-	232
Net income/(expense) recognised directly in equity	-	-	8,074	-	(325)	-	232	325	8,306	6,525	14,831
Loss for the year and total recognised income and expense for the year	-	-	-	-	-	-	-	(9,381)	(9,381)	(1,531)	(10,912)
At 31st December 2008	3,251	27,682	10,672	7,250	1,623	2,441	15,467	18,679	87,065	75,700	162,765

Notes :

**(a) Statutory reserves**

Pursuant to the articles of association of the Group's subsidiaries in the People's Republic of China (the "PRC"), appropriations are made from the accumulated profits to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in the PRC. Such appropriations to reserves would be made only with approval from the board of directors of the Group's subsidiaries.

**(b) Merger reserve**

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
<b>Operating activities</b>		
Loss before taxation	(9,363)	(7,266)
Adjustments for:		
Interest income	(415)	(159)
Finance costs	11,808	11,100
Depreciation and amortisation	21,275	25,238
Fair value changes on embedded derivative financial instrument	(4,448)	(33)
Allowance for bad and doubtful debts	178	175
(Gain)/loss on disposal of property, plant and equipment	(1)	4,071
Allowance for inventories	2,664	–
Fair value change on derivative financial instrument	27	–
Operating cashflow before working capital changes	21,725	33,126
Increase in inventories	(6,404)	(15,113)
Decrease/(increase) in trade and note receivables	16,971	(13,084)
Decrease/(increase) in prepayments, deposits and other receivables	1,948	(392)
Increase in pledged bank deposits	(6,109)	–
Increase in restricted bank balances	(9,040)	–
(Decrease)/increase in trade and notes payables	(16,329)	9,387
Increase in accruals and other payables	1,762	1,068
Cash generated from operations	4,524	14,992
Enterprise income tax paid in the PRC	(966)	(2,254)
Net cash from operating activities	3,558	12,738
<b>Investing activities</b>		
Purchase of property, plant and equipment	(17,221)	(42,659)
Proceeds from disposal of property, plant and equipment	114	201
Purchase of prepaid lease payments	(3,389)	–
(Increase)/decrease in amount due from a minority shareholder of a subsidiary	(3,254)	632
Interest received	415	159
Net cash used in investing activities	(23,335)	(41,667)

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

	2008 HK\$'000	2007 HK\$'000
<b>Financing activities</b>		
Interest paid	(10,461)	(9,880)
New bank borrowings raised	143,998	142,545
Repayment of short-term bank loans	(124,214)	(121,047)
Repayment of mortgage loan	(96)	(84)
Repayment of capital element of finance leases	(372)	(30)
Increase in amount due to ultimate holding company	5,604	–
Net cash from financing activities	<b>14,459</b>	11,504
Net decrease in cash and cash equivalents	<b>(5,318)</b>	(17,425)
Cash and cash equivalents at 1st January	<b>15,921</b>	34,599
Effect of foreign exchange rate changes	<b>(2,181)</b>	(1,253)
Cash and cash equivalents at 31st December	<b>8,422</b>	15,921
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS:</b>		
Cash and bank balances	<b>12,760</b>	25,190
Bank overdrafts	<b>(4,338)</b>	(9,269)
Cash and cash equivalents at 31st December	<b>8,422</b>	15,921

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 1. GENERAL INFORMATION

The principal activities of the Company and its subsidiaries (the "Group") are the investment holding, manufacturing and sale of loudspeaker systems to customers in the PRC and overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section. The directors regard Newood Consultancy Limited, a company incorporated in the British Virgin Islands ("BVI"), as the ultimate holding company.

The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19th July 2002.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Group.

### 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Notwithstanding that the Group incurred loss attributable to equity holders of the Company of approximately HK\$9,381,000 for the year ended 31st December 2008 and had net current liabilities of approximately HK\$29,710,000 as at 31st December 2008, these consolidated financial statements have been prepared on a going concern basis as the directors of the Company are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration of the positive profits forecast will be generated from the Group's businesses based on the financial budgets approved by senior management covering five years.

The directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these consolidated financial statements have been prepared on a going concern basis and do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group fail to continue as a going concern.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are or have become effective.

Hong Kong Accounting Standard (“HKAS”) 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Interpretation (“Int”) 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adoption of these new and revised HKFRSs are as follows:

#### Amendments to HKAS 39 and HKFRS 7 - Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term if specified criteria are met. A debt instrument classified as held for trading not classified by designation or as available-for-sale not classified by designation may be reclassified as a loan or receivable if the asset meets the definition of a loan or receivable and the entity has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from held for trading to available-for-sale or to held to maturity (in the case of debt instrument), only in rare circumstances.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above.

The amendments are effective from 1st July 2008. As the Group does not intend to reclassify any of its financial instruments, the amendments have had no impact on these consolidated financial statements.

#### HK(IFRIC) - INT 11 - HKFRS 2–Group and Treasury Share Transactions

HK(IFRIC) - Int 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) - Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no effect on these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HK(IFRIC) - INT 12 - Service Concession Arrangements

HK(IFRIC) - Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no effect on these consolidated financial statements.

#### HK(IFRIC) - INT 14 - HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

HK(IFRIC) - Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, the interpretation has had no effect on these consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective at 31st December 2008.

HKFRSs (Amendments)	Improvement to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>3</sup>
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments <sup>2</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded Derivatives <sup>7</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC)-Int 18	Transfers of Assets from Customers <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st July 2009.

<sup>4</sup> Effective for annual periods beginning on or after 1st July 2008.

<sup>5</sup> Effective for annual periods beginning on or after 1st October 2008.

<sup>6</sup> Effective for transfers of assets from customers received on or after 1st July 2009.

<sup>7</sup> Effective for annual periods ending on or after 30 June 2009.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKAS 1 (Revised) - “Presentation of Financial Statements”

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three “statements of financial position” (currently called the “balance sheet”) whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group expects to adopt HKAS 1 (Revised) on or after 1st January 2009.

#### HKAS 27 (Revised) - “Consolidated and Separate Financial Statements”

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Cash Flows Statements, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

#### HKFRS 3 (Revised) - “Business Combinations”

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently minority interests) at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the consolidated income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

The Group expects to adopt HKAS 27 (Revised) and HKFRS 3 (Revised) on or after 1st January 2009. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The directors of the Company are not yet in a position to determine whether HKFRSs (Amendments), HKFRS 1 (Revised) and HKFRS 7 (Amendment) would have a significant impact on how the results and financial position of the Group are prepared and presented.

The directors of the Company are currently assessing the impact of the other new standards, amendments and interpretations but are not yet in position to state whether they would have material impact on the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Goodwill**

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment loss and presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. Impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment

Property, plant and equipment excluding buildings (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

#### Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Intangible assets (continued)

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in this normal course of business net of discounts and sales related taxes.

#### Sales of goods/moulds/scrap materials

Sales of goods/moulds/scrap materials are recognised when goods are delivered and title has passed.

#### Service fee income

Service fee income is recognised when services are provided.

#### Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### Government grants

Grants from the government are recognised at the fair value of the consideration where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### *Leasehold land and buildings*

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases. Prepaid lease payments are stated at cost less subsequent amortisation and are provided to write off the cost over the term of the relevant lease, using the straight-line method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the cumulative translation adjustment reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the cumulative translation adjustment reserve.

#### Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

#### Employee benefits

##### *Employee leave entitlements:*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to non-accounting compensated absences are not recognised until the time of leave.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Employee benefits (continued)

##### *Pension obligations:*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution plan are charged as an expense when employees have rendered services entitling them to the contributions.

##### *Share-based compensation:*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense, with a corresponding increase in equity (share-based payment reserve). The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity (share-based payment reserve).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated profits.

#### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (continued)

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and note receivables, deposits and other receivables, amount due from a minority shareholder of a subsidiary, pledged bank deposits, restricted bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment of financial assets below).

##### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (continued)

Financial liabilities and equity (continued)

##### *Other financial liabilities*

Other financial liabilities including trade and note payables, accruals and other payables, obligations under finance leases, amount due to ultimate holding company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Convertible bonds*

Convertible bonds issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

##### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (continued)

##### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Impairment losses on tangible and intangible assets other than goodwill ( see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 5. **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Key sources of estimation uncertainty*

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **Depreciation of property, plant and equipment**

The Group's net carrying value of property, plant and equipment as at 31st December 2008 was approximately HK\$191,547,000 (2007:HK\$167,147,000). The Group depreciates its property, plant and equipment on a straight-line basis over the estimated useful lives of five to thirty years, and after taking into account of their estimated residual values, using the straight-line method, at the rate of 3.33% to 20% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the years that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

#### **Amortisation of intangible assets**

Intangible assets represent trademark and patents are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful lives of trademark and patents and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

#### **Estimated allowance for inventories**

The management of the Group reviews an ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items. Allowance for the year ended 31st December 2008 of approximately HK\$2,664,000 (2007:HK\$nil) was recognised.

#### **Estimated the fair value of buildings**

As described in note 18, the buildings were revalued at the balance sheet date using cost replacement approach by independent qualified valuers. A revaluation increase of HK\$18,187,000 (2007: nil) was recognised in relation to the buildings. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from the aggregate amount of the new replacement cost of the buildings and other site works and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at each balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 5. **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**

#### **Allowance for bad and doubtful debts**

Management regularly reviews and judges the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discount using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. Allowance for the year ended 31st December 2008 of approximately HK\$178,000 (2007: HK\$175,000) was recognised.

#### **Fair value of derivatives and other financial instruments**

As described in note 7, the directors of the Company use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used are disclosed in note 7.

#### **Impairment of assets**

The management determines the impairment loss if circumstances indicate that the carrying value of an asset may not be recoverable. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales revenue and related costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale revenue and amount of the related costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings, convertible bonds and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

One of the Group's subsidiaries has subject to an externally capital requirements from a banker for banking facilities granted. As at 31st December 2008, the subsidiary has a bank overdraft with a carrying amount of approximately HK\$ 4,338,000 (note 30). The subsidiary breached certain of the terms of the bank overdraft, which are primarily related to the debt-equity ratio of the subsidiary. On discovery of the breach, the directors of the Company informed the banker and commenced a renegotiation of the terms of the loan covenant with the relevant banker. As at 31st December 2008, those negotiations had not been concluded. As at the date of approval of these consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that their negotiations with the banker will ultimately reach a successful conclusion based on their past experience. In any event, should the lender call for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the subsidiary.

### 7. FINANCIAL RISK MANAGEMENT

#### (a) Categories of financial instruments

	2008 HK\$'000	2007 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	125,739	141,041
Financial liabilities		
Other financial liabilities at amortised cost	212,500	206,348
Derivative financial instrument	27	–
Embedded derivative financial instrument	2,145	6,593
Convertible bonds	37,204	36,109

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31st December 2008

**7. FINANCIAL RISK MANAGEMENT (CONTINUED)****(b) Financial risk management objectives and policies**

The Group's major financial instruments include convertible bonds, trade and note receivables, deposits and other receivables, amount due from a minority shareholder of a subsidiary, pledged bank deposits, restricted bank balances, cash and bank balances, trade and note payables, accruals and other payables, obligations under finance leases, bank borrowings, derivative financial instrument and embedded derivative financial instrument. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*(i) Market risk*

## – Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 6% (2007: 2.7%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 100% (2007: 100%) of costs are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
United States dollars ("USD")	45,139	48,877	56,708	19,567
Euro ("EUR")	5,387	6,251	–	76
Canadian dollar ("CAD")	6,725	–	–	–
	<b>57,251</b>	55,128	<b>56,708</b>	19,643

Several subsidiaries of the Company's functional currency is denominated in Renminbi of which no exposure of foreign currency risk to the Group.

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 7. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Financial risk management objectives and policies (continued)

##### (i) Market risk (continued)

– Currency risk (continued)

##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2007: 5%) increase or decrease in the functional currency of the group entity against USD/EUR/CAD. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in loss for the year where the HK\$ weakening 5% (2007: 5%) against the relevant currency. For a 5% (2007: 5%) strengthen of the HK\$ against the relevant currency, there would be negative.

	Profit or loss	
	2008 HK\$'000	2007 HK\$'000
USD impact (note)	(578)	1,465
EUR impact (note)	269	309
CAD impact (note)	336	–

Note:

The Group's sensitivity to USD/EUR/CAD has increased during the current year mainly due to the increase in USD/EUR/CAD denominated in trade receivables, bank balances and trade payables as at 31st December 2008.

– Price risk

The Group exposed to equity securities price risk or commodity price risk is insignificant as it does not hold investments classified as available-for-sale financial assets or financial assets at fair value through profit or loss.

– Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible bonds (see note 32 for details of the convertible bonds) and bank borrowings (see note 30 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 7. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Financial risk management objectives and policies (continued)

##### (i) Market risk (continued)

###### – Interest rate risk (continued)

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, bank balances, pledged bank deposits and restricted bank balances. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the cash flow interest rate risk.

The Group considered that the cash flow interest rate risk was immaterial for the year.

##### (ii) Credit risk

As at 31st December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverables amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 20% (2007: 24%) of the total trade receivables was due from the Group's largest customer. However, this customer is with good creditability, the management considers there is no significant credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements.

##### (iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December 2008, the Group has available unutilised short-term banking facilities of approximately HK 19,000,000 (2007: HK\$27,825,000).

The Group is exposed to liquidity risk as the Group recorded net current liabilities of approximately HK\$29,710,000 (2007: HK\$18,238,000) as at the balance sheet date. In order to mitigate the liquidity risk, the Group has obtained sufficient banking facilities which enable the Group to continue its operations. There was net cash inflow from the operating activities and the liquidity of the Group can be maintained in the coming year taking into consideration of the positive profits forecast will be generated from the Group's businesses based on the financial budgets approved by senior management covering five years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 7. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Financial risk management objectives and policies (continued)

##### (iii) Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instrument settle on net basis, undiscounted net cash outflow are presented.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	Weighted average interest rate	Within 1 year HK\$'000	1-5 years HK\$'000	>5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts at 31/12/2008 HK\$'000
<b>2008</b>						
<b>Non-derivative financial liabilities</b>						
Trade and note payables	-	84,909	-	-	84,909	84,909
Accruals and other payables	-	29,988	-	-	29,988	29,988
Bank overdrafts and short-term bank loans	7.00%	93,872	-	-	93,872	91,034
Long-term bank loans at variable rate	3.00%	160	640	2,159	2,959	2,367
Obligations under finance leases	8.50%	145	53	-	198	185
Convertible bonds	12.9%	3,120	42,932	-	46,052	37,204
Amount due to ultimate holding company	-	5,604	-	-	5,604	5,604
		<b>217,798</b>	<b>43,625</b>	<b>2,159</b>	<b>263,582</b>	<b>251,291</b>
<b>Derivatives – net settlement</b>						
Derivative financial instrument		27	-	-	27	27

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

## 7. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Financial risk management objectives and policies (continued)

## (iii) Liquidity risk (continued)

	Weighted average interest rate	Within	1-5 years	>5 years	Total	Carrying
		1 year	1-5 years	>5 years	undiscounted	amounts at
		HK\$'000	HK\$'000	HK\$'000	cash flows	31/12/2007
					HK\$'000	HK\$'000
<b>2007</b>						
<b>Non-derivative financial liabilities</b>						
Trade and note payables	-	101,238	-	-	101,238	101,238
Accruals and other payables	-	25,909	-	-	25,909	25,909
Bank overdrafts and short-term bank loans	6%	76,181	-	-	76,181	76,181
Long-term bank loans at variable rate	2.5%	190	760	2,754	3,704	2,463
Obligations under finance leases	8.5%	369	247	-	616	557
Convertible bonds	12.9%	3,122	48,390	-	51,512	36,109
		207,009	49,397	2,754	259,160	242,457

## (iv) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model); and
- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to short-term maturities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 8. *TURNOVER*

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

### 9. *OTHER REVENUE*

	2008 HK\$'000	2007 HK\$'000
Interest income	415	159
Sales of scrap materials	318	664
Service fee income	645	1,407
Subsidy income ( <i>Note</i> )	673	–
Net foreign exchange gain	6,478	–
Mould income	3,639	–
Gain on disposal of property, plant and equipment	1	–
Others	723	432
	<b>12,892</b>	<b>2,662</b>

*Note:*

Subsidy income represents local government subsidies paid to the Group based on the pre-determined level of expenditures spent on certain advanced technology projects by the Group during the year ended 31st December 2008.

### 10. *SEGMENT INFORMATION*

Segment information is presented in respect of the Group's business and geographical segments. Geographical segments information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 10. SEGMENT INFORMATION (CONTINUED)

#### (a) Geographical segments

	Year ended 31st December 2008						Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover	7,828	152,795	19,908	140,508	47,130	24,136	392,305
Segment results	694	(3,929)	(531)	(4,369)	(1,397)	(915)	(10,447)
Other revenue							12,892
Finance costs							(11,808)
Loss before taxation							(9,363)
Taxation							(1,549)
Loss for the year							(10,912)

	As at 31st December 2008						Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Segment assets	5,818	331,318	-	46,093	727	-	383,956
Unallocated assets							37,703
Total assets							421,659
Segment liabilities	901	102,129	-	11,894	-	-	114,924
Unallocated liabilities							143,970
Total liabilities							258,894
Other information							
Capital expenditure	-	20,533	-	77	-	-	20,610
Depreciation and amortisation	164	17,904	-	3,177	30	-	21,275
Fair value changes on derivative financial instrument	-	27	-	-	-	-	27
Allowance for inventories	-	2,664	-	-	-	-	2,664
Allowance for bad and doubtful debts	-	-	-	178	-	-	178

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 10. SEGMENT INFORMATION (CONTINUED)

#### (a) Geographical segments (Continued)

	Year ended 31st December 2007						Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover	8,280	153,180	18,953	177,484	32,447	31,860	422,204
Segment results	(3,416)	2,427	320	1,469	340	32	1,172
Other revenue							2,662
Finance costs							(11,100)
Loss before taxation							(7,266)
Taxation							1,704
Loss for the year							(5,562)
	As at 31st December 2007						Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Segment assets	10,724	301,336	–	67,443	222	–	379,725
Unallocated assets							35,783
Total assets							415,508
Segment liabilities	1,013	114,860	–	13,591	–	–	129,464
Unallocated liabilities							127,198
Total liabilities							256,662
Other information							
Capital expenditure	–	39,294	–	3,456	–	–	42,750
Depreciation and amortisation	164	22,495	–	2,579	–	–	25,238
Allowance for bad and doubtful debts	–	175	–	–	–	–	175
Loss on disposal of property, plant and equipment	–	3,819	–	252	–	–	4,071

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 10. SEGMENT INFORMATION (CONTINUED)

#### (b) Business segments

The Group has been operating in a single business segment that is manufacture and sales of loudspeaker systems.

### 11. FINANCE COSTS

	2008 HK\$'000	2007 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	7,252	6,628
Mortgage loan repayable over 5 years	72	109
Finance lease	37	43
Effective interest expense on convertible bonds (note 32)	4,447	4,320
	<b>11,808</b>	<b>11,100</b>

### 12. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	2008 HK\$'000	2007 HK\$'000
Depreciation on property, plant and equipment	19,244	23,445
Amortisation on intangible assets	1,521	1,510
Amortisation on prepaid lease payments	510	283
Employee benefit expense (note 16)	77,050	68,662
Changes in inventories of finished goods and work in progress	5,327	6,824
Raw materials and consumables used	316,250	291,086
Allowance for inventories (included in cost of goods sold)	2,664	–
Auditors' remuneration	420	521
Research and development costs	11,713	12,142
Allowance for bad and doubtful debts	178	175
Fair value change on derivative financial instrument	27	–
(Gain)/loss on disposal of property, plant and equipment	(1)	4,071
Net foreign exchange (gain)/loss	(6,478)	4,186

### 13. TAXATION

No provision for Hong Kong profits tax has been made as there is no assessable profit for the Group operating in Hong Kong during the years ended 31st December 2008 and 2007.

Taxation arising in other jurisdictions is calculated at the rates in the relevant jurisdictions.

On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from year of assessment 2008/2009.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 13. TAXATION (CONTINUED)

On 16th March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate ("EIT") of the Group's subsidiaries in the PRC was reduced from 27% to 25% from 1st January 2008 onwards. The relevant tax rate for the Group's subsidiaries in the PRC is 25% (2007: 27%). For the year ended 31st December 2007, 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, were subject to preferential enterprise income tax ("EIT") rate of 27%, representing 24% state EIT rate and 3% local EIT rate.

Shangsheng Technology and Suzhou Hesheng 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. Sonavox Acoustics, Shangsheng Technology and Suzhou Hesheng have been reporting tax loss since its establishment.

No EIT is payable on the profit for the year of Sonavox Acoustics since the assessable profit is wholly absorbed by tax losses brought forward.

The amount of taxation for the year to the consolidated income statement represents:

	2008 HK\$'000	2007 HK\$'000
Current taxation		
– PRC enterprise income tax	–	316
Under provision of PRC enterprise income tax in prior years	490	1,372
Deferred taxation (note 20)		
– Current year	541	(3,392)
– Attributable to change of tax rate	518	–
	<b>1,549</b>	<b>(1,704)</b>

The taxation for the years can be reconciled to the loss before taxation as per the consolidated income statement as follows:

	2008 HK\$'000	2007 HK\$'000
Loss before taxation	<b>(9,363)</b>	<b>(7,266)</b>
Tax calculated at domestic tax rates applicable to profits in the respective countries	<b>(2,296)</b>	<b>(150)</b>
Under provision of PRC enterprise income tax in prior years	490	1,372
Tax effect of expenses not deductible for tax purpose	2,925	958
Tax effect of income not taxable for tax purpose	(972)	(1,655)
Utilisation of previously unrecognised tax losses	(915)	–
Deferred tax asset in respect of unrecognised tax losses	5,498	1,237
Effect of concessionary tax rate	(3,699)	(3,466)
Effect of change in tax rate	518	–
Taxation for the year	<b>1,549</b>	<b>(1,704)</b>

Details of deferred tax are set out in note (20).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

## 14. LOSS PER SHARE

## (a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007
Loss attributable to equity holders of the Company (HK\$'000)	<b>(9,381)</b>	(5,696)
Weighted average number of ordinary shares in issue ('000)	<b>325,090</b>	325,090
Basic loss per share (HK cent per share)	<b>(2.89)</b>	(1.75)

## (b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as the dilutive potential ordinary shares (note 36). The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

In addition, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share from operations.

	2008	2007
Loss attributable to equity holders of the Company (HK\$'000)	<b>(9,381)</b>	(5,696)
Weighted average number of ordinary shares in issue ('000)	<b>325,090</b>	325,090
Effect of dilutive potential ordinary shares ('000)	–	495
Weighted average number of ordinary shares for diluted loss per share ('000)	<b>325,090</b>	325,585
Diluted loss per share (HK cent per share)	<b>N/A</b>	N/A

No diluted loss per share has been presented because the exercise price of the Company's options was higher than the average market price for share in 2008.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 15. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the years ended 31st December 2008 and 2007.

### 16. EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2008 HK\$'000	2007 HK\$'000
Wages, basic salaries and other allowance	68,691	62,352
Contribution to pension scheme	8,359	6,310
	<b>77,050</b>	<b>68,662</b>

### 17. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The remuneration of each director for the year ended 31st December 2008 is set out below:

Name of director	Directors' fees HK\$'000	Basic salaries, other allowance and benefits in kind HK\$'000	Contribution to pension scheme HK\$'000	Total HK\$'000
<i>Executive:</i>				
– Mr. Yang Tsu Ying	–	70	–	70
– Mr. Yang Ching Yau	–	280	–	280
<i>Independent non-executive:</i>				
– Mr. Fan Chi Fai, Paul	104	–	–	104
– Mr. Yiu Chi Wah	104	–	–	104
– Mr. Wong Kai Tung, Simon <sup>1</sup>	60	–	–	60
– Mr. Lee Fang Yu <sup>2</sup>	44	–	–	44
	<b>312</b>	<b>350</b>	<b>–</b>	<b>662</b>

<sup>1</sup> Resigned on 14th July 2008

<sup>2</sup> Appointed on 14th July 2008

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 17. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

#### (a) Directors' emoluments (Continued)

The remuneration of each director for the year ended 31st December 2007 is set out below:

Name of director	Directors' fees HK\$'000	Basic salaries, other allowance and benefits in kind HK\$'000	Contribution to pension scheme HK\$'000	Total HK\$'000
<i>Executive:</i>				
– Mr. Yang Tsu Ying	–	65	–	65
– Mr. Yang Ching Yau	–	260	–	260
<i>Independent non-executive:</i>				
– Mr. Fan Chi Fai, Paul	96	–	–	96
– Mr. Yiu Chi Wah	96	–	–	96
– Mr. Wong Kai Tung, Simon	96	–	–	96
	288	325	–	613

No director waived or agreed to waive any emoluments during the two years ended 31 December 2008 and 2007. No emoluments were paid to the director as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none was director (2007: two were directors of the Company whose emoluments are reflected in the analysis presented above). The emoluments of the five (2007: remaining three) individuals are as follows:

	2008 HK\$'000	2007 HK\$'000
Basic salaries and other allowance	3,711	1,412
Contribution to pension scheme	387	32
	<b>4,098</b>	1,444

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 17. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

#### (b) Five highest paid individuals (Continued)

Their emoluments were within the following bands:

	2008 No. of employees	2007 No. of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	–
	5	3

### 18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>Cost or valuation</b>						
At 1st January 2007	74,904	3,137	69,244	3,987	35,060	186,332
Additions	74	1,446	7,595	2,852	30,783	42,750
Transfers	–	11,786	17,800	–	(29,586)	–
Disposals	(313)	(1,931)	(3,165)	(1,693)	–	(7,102)
Translation adjustments	5,587	549	7,618	299	2,800	16,853
<b>At 31st December 2007 and 1st January 2008</b>	<b>80,252</b>	<b>14,987</b>	<b>99,092</b>	<b>5,445</b>	<b>39,057</b>	<b>238,833</b>
Additions	3,430	5,382	6,629	–	1,780	17,221
Transfers	18,548	7,421	7,170	–	(33,139)	–
Surplus on revaluation	7,354	–	–	–	–	7,354
Disposals	–	(19)	–	(147)	–	(166)
Translation adjustments	4,655	499	2,148	290	2,039	9,631
<b>At 31st December 2008</b>	<b>114,239</b>	<b>28,270</b>	<b>115,039</b>	<b>5,588</b>	<b>9,737</b>	<b>272,873</b>
<b>Comprising</b>						
At cost	53,785	28,270	115,039	5,588	9,737	212,419
At valuation 2008	60,454	–	–	–	–	60,454
	<b>114,239</b>	<b>28,270</b>	<b>115,039</b>	<b>5,588</b>	<b>9,737</b>	<b>272,873</b>
<b>Accumulated depreciation</b>						
At 1st January 2007	2,581	3,043	36,850	3,100	–	45,574
Charge for the year	3,528	7,715	11,414	788	–	23,445
Elimination on disposals	(179)	–	(1,295)	(1,356)	–	(2,830)
Translation adjustments	171	498	4,611	217	–	5,497
<b>At 31st December 2007 and 1st January 2008</b>	<b>6,101</b>	<b>11,256</b>	<b>51,580</b>	<b>2,749</b>	<b>–</b>	<b>71,686</b>
Charge for the year	4,242	3,942	10,391	669	–	19,244
Elimination on revaluation	(10,833)	–	–	–	–	(10,833)
Elimination on disposals	–	(2)	–	(51)	–	(53)
Translation adjustments	490	660	(47)	179	–	1,282
<b>At 31st December 2008</b>	<b>–</b>	<b>15,856</b>	<b>61,924</b>	<b>3,546</b>	<b>–</b>	<b>81,326</b>
<b>Carrying values</b>						
<b>At 31st December 2008</b>	<b>114,239</b>	<b>12,414</b>	<b>53,115</b>	<b>2,042</b>	<b>9,737</b>	<b>191,547</b>
At 31st December 2007	74,151	3,731	47,512	2,696	39,057	167,147

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

	Expected useful life	Estimated residual value
Buildings	Over terms of leasehold land, or 30 years whichever is shorter	0%
Leasehold improvements	5 years	10%
Machinery, furniture and equipment	5-10 years	10%
Motor vehicles	5 years	10%

Bank borrowings are secured by buildings with the carrying amounts of approximately HK\$114,239,000 (2006: HK\$74,151,000) in note 30.

The carrying amounts of machinery, furniture and equipment includes an amount of approximately HK\$279,000 (2006: HK\$692,000) in respect of assets held under finance lease.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2008 HK\$'000	2007 HK\$'000
Cost	101,035	74,402
Accumulated depreciation	(11,992)	(7,260)
Carrying values	89,043	67,142

The revaluation of the Group's buildings as at 31st December 2008 has been arrived at on the basis of valuations carried out on that date by, Malcolm & Associates Appraisal Limited, independent qualified valuers not connected with the Group. Malcom & Associates Appraisal Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience. A revaluation increase of HK\$18,187,000 was recognised in relation to the buildings. The valuation has been valued by the depreciation replacement cost approach arrived at the aggregate amount of the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factor.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights and their net carrying values are analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Leasehold land outside Hong Kong, held under medium-term leases	<b>16,326</b>	12,649
	2008 HK\$'000	2007 HK\$'000
Beginning of year	<b>12,649</b>	11,927
Addition	<b>3,389</b>	–
Amortisation of prepaid lease payments	<b>(510)</b>	(283)
Translation adjustment	<b>798</b>	1,005
End of year	<b>16,326</b>	12,649
	2008 HK\$'000	2007 HK\$'000
Analysed for reporting purposes as:		
Current asset	<b>380</b>	293
Non-current asset	<b>15,946</b>	12,356
	<b>16,326</b>	12,649

Bank borrowings are secured by prepaid lease payments with the carrying amounts of approximately HK\$13,198,000 (2007: HK\$12,649,000) in note 30.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 20. DEFERRED TAX

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred tax assets

	Difference between tax and depreciation allowance		Provision for assets (other than property, plant and equipment)		Tax losses		Total	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At 1st January	2,874	2,680	1,573	1,453	7,253	3,432	11,700	7,565
Effect of change in tax rate Credited/(charged) to the consolidated income statement (Note 13)	(402)	-	(116)	-	-	-	(518)	-
Translation adjustments	456	-	5,253	15	(6,250)	3,377	(541)	3,392
	97	194	(856)	105	(612)	444	(1,371)	743
At 31st December	3,025	2,874	5,854	1,573	391	7,253	9,270	11,700

#### Deferred tax liabilities

	Revaluation of buildings	
	2008 HK\$'000	2007 HK\$'000
At 1st January	(1,892)	(1,892)
Effect of change in tax rate Charged to equity	631	-
	(4,219)	-
At 31st December	(5,480)	(1,892)

Deferred tax assets /(liabilities) are further analysed for reporting purpose as follows:

	2008 HK\$'000	2007 HK\$'000
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	6,294	10,347
- Deferred tax assets to be recovered within 12 months	-	1,353
	6,294	11,700
Deferred tax liabilities to be settled after 12 months	(2,504)	(1,892)

At the balance sheet date, the Group has unused tax losses of approximately HK\$20,008,000 (2007: HK\$25,692,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$1,115,000 (2007: HK\$20,723,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK\$18,893,000 (2007: HK\$4,969,000) due to the unpredictability of future profit streams. Losses amounting to approximately HK\$20,008,000 (2007: HK\$25,692,000) will expire during 2009 to 2028.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 21. INTANGIBLE ASSETS

	<b>Trademark and patents HK\$'000</b>
Cost	
At 1st January 2007	21,000
Translation adjustment	3,442
	<hr/>
At 31st December 2007 and 1st January 2008	24,442
Translation adjustment	(4,760)
	<hr/>
At 31st December 2008	19,682
	<hr/>
Amortisation	
At 1st January 2007	1,400
Charge for the year	1,510
	<hr/>
At 31st December 2007 and 1st January 2008	2,910
Charge for the year	1,521
Translation adjustment	(495)
	<hr/>
At 31st December 2008	3,936
	<hr/>
Carrying values	
At 31st December 2008	15,746
	<hr/>
At 31st December 2007	21,532
	<hr/>

The trademark and patents was purchased as part of a business combination in prior years.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over 15 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 22. GOODWILL

	HK\$'000
Cost	
At 1st January 2007	5,299
Translation adjustment	1,017
	<hr/>
At 31st December 2007 and 1st January 2008	6,316
Translation adjustment	(1,350)
	<hr/>
At 31st December 2008	4,966
	<hr/>
Impairment	
At 1st January 2007, 31st December 2007 and 31st December 2008	–
	<hr/>
Carrying amounts	
At 31st December 2008	4,966
	<hr/>
At 31st December 2007	6,316
	<hr/>

The goodwill was arising on acquisition of Sonavox Canada Limited (“SCI”) on 12th April 2006 and is tested for impairment at least annually.

The recoverable amount of SCI has been determined based on a value in use calculation. During the year ended 31st December 2008, the senior management of the Group prepared profit forecast (the “Forecast”) in respect of SCI. The Forecast was based on financial budgets approved by senior management covering five years at a discount rate of 5% and the growth rate of 1.6%. The revenue of the Forecast is based on the expected Canada’s gross domestic price report from International Monetary Fund and taking the recent economic recession would last in 2009 into consideration. Budgeted gross margins have been determined based on the management’s past performance and expectation for the consumer electronic market development. The expected growth rate does not exceed the annual growth rate for the consumer electronic business in which SCI operates. The directors of the Company are of the opinion, based on the Forecast, that the recoverable amount of the goodwill arising from acquisition of SCI does exceed its carrying amount in the consolidated balance sheet and any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of SCI to exceed its aggregate recoverable amount. No impairment loss is necessary.

### 23. INVENTORIES

	2008 HK\$'000	2007 HK\$'000
Raw materials	24,801	26,388
Work-in-progress	7,903	6,058
Finished goods	24,766	21,284
	<hr/>	<hr/>
	57,470	53,730
	<hr/>	<hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 23. INVENTORIES (CONTINUED)

Included in the above figures are raw materials of approximately HK\$4,954,000 (2007: HK\$5,496,000), work-in-progress of approximately HK\$1,108,000 (2007: HK\$2,282,000) and finished goods of approximately HK\$306,000 (2007: HK\$584,000) which have been pledged as security for bank borrowings (note 30).

### 24. TRADE AND NOTE RECEIVABLES

	2008 HK\$'000	2007 HK\$'000
Trade and note receivables		
– third parties	90,220	108,725
– related parties (note 35)	710	172
	<b>90,930</b>	108,897
Less: Allowance for doubtful debts	(2,571)	(3,389)
	<b>88,359</b>	105,508

The majority of the Group's sales are on open account in accordance with terms specified in the contacts governing relevant transactions. An average credit period is generally for 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 31st December 2008, an aged analysis of the Group's trade and note receivables net of allowance for bad and doubtful debts at the reporting date was as follows:

	2008 HK\$'000	2007 HK\$'000
0 – 30 days	39,460	64,217
31 – 60 days	22,282	23,148
61 – 90 days	15,456	10,089
91 – 180 days	9,334	6,915
181 – 360 days	1,827	1,139
	<b>88,359</b>	105,508

Before accepting any new customer, the Group uses an internally credit assessment policy to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Most of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by Group.

Included in the Group's trade and note receivables are debtors with aggregate carrying amount of approximately HK\$11,161,000 (2007: HK\$8,054,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 120 days (2007: 94 days).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31st December 2008

**24. TRADE AND NOTE RECEIVABLES (CONTINUED)**

Ageing of trade and note receivables which are past due but not impaired are as follows:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
91 – 180 days	<b>9,334</b>	6,915
181 – 360 days	<b>1,827</b>	1,139
	<b>11,161</b>	8,054

Movement in the allowance for bad and doubtful debts

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Balance at beginning of the year	<b>3,389</b>	3,214
Impairment loss recognised	<b>178</b>	175
Amounts written off as uncollectible	<b>(996)</b>	–
Balance at end of the year	<b>2,571</b>	3,389

Included in the allowance for bad and doubtful debts are individually impaired trade receivables of approximately HK\$2,571,000 (2007: HK\$3,389,000) which have in severe financial difficulties. The Group does not hold any collateral over these balances.

At 31st December 2008, the carrying amount of receivables, which have been pledged as security for the bank borrowings, is approximately HK\$ 13,592,000 (2007: HK\$ 20,948,000). The carrying amount of the associated liability is HK\$ 4,338,000 (2007: HK\$ 9,269,000) (note 30).

**25. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**

The amount is unsecured, interest-free and repayable on demand.

**26. PLEDGED DEPOSITS/RESTRICTED BANK BALANCES/CASH AND BANK BALANCES****Pledged bank deposits**

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. All the pledged bank deposits are denominated in RMB and have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged deposits carry fixed interest rate of 4% to 4.14% (2007: nil) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

**Restricted bank balances**

Restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The balances carried fixed interest rate of 0.35% to 0.72% (2007: nil) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 26. PLEDGED DEPOSITS/RESTRICTED BANK BALANCES/CASH AND BANK BALANCES (CONTINUED)

#### Cash and bank balances

Cash and bank balances of approximately HK\$7,602,000 (2007: HK\$18,036,000) are denominated in RMB and are placed with banks in PRC. The remittance of these funds out of PRC is subjected to the exchange control restriction imposed by the government of PRC. Bank balances carry interest at market rates which range from 0.01% to 1.15% (2007: 0.6% to 1.5%) per annum.

### 27. TRADE AND NOTE PAYABLES

An aged analysis of the Group's trade and note payables was as follows:

	2008 HK\$'000	2007 HK\$'000
0 – 30 days	21,624	51,944
31 – 60 days	19,427	23,538
61 – 90 days	16,289	17,642
91 – 180 days	24,781	7,324
181 – 360 days	1,667	504
Over 360 days	1,121	286
	<b>84,909</b>	<b>101,238</b>

### 28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 29. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease machinery, furniture and equipment under finance leases. The lease term is fixed at three years (2007: three years). Effective interest rate underlying the obligations under finance leases is fixed at an average of 8.5% (2007: 8.5%). No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Amounts payable under finance lease:				
Within one year	145	369	134	326
In more than one year but not more than two years	53	182	51	169
In more than two years but not more than five years	–	65	–	62
	198	616	185	557
Less: Future finance charges	(13)	(59)	N/A	N/A
Present value of lease obligations	185	557	185	557
Less: Amount due for settlement within one year (shown under current liabilities)			(134)	(326)
Amount due for settlement after one year			51	231

The Group's obligations under finance leases as at 31st December 2008 and 2007 are denominated in CAD. It is secured by the lessor's charge over the leased assets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 30. BANK BORROWINGS

	2008 HK\$'000	2007 HK\$'000
Secured		
Bank overdrafts	4,338	9,269
Short-term bank loans	86,696	66,912
Mortgage loan	2,367	2,463
	<b>93,401</b>	78,644
Carrying amount repayable:		
On demand or within one year	91,136	76,262
More than one year, but not exceeding two years	105	85
More than two years, but not exceeding five years	216	262
More than five years	1,944	2,035
	<b>93,401</b>	78,644
Less: Amounts due within one year shown under current liabilities	<b>(91,136)</b>	(76,262)
Amount due after one year	<b>2,265</b>	2,382

The details of loans are shown as follows:

	Outstanding amount		Original currency		Effective interest rate		Assets pledged
	2008 HK\$'000	2007 HK\$'000	2008	2007	2008	2007	
(1)	76,741	66,912	RMB	RMB	fixed rate of 5.85% to 8.14%	fixed rate of 3.95% to 6.10%	Building and land use right of approximately HK\$121,837,000 (2007: HK\$82,514,000)
(2)	4,055	-	USD	-	fixed rate of 5.72%	-	Bank deposits of approximately HK\$4,339,000 (2007: nil)
(3)	2,367	2,463	HK\$	HK\$	variable rate of 2% below HK\$ prime lending rate	variable rate of 2% below HK\$ prime lending rate	Buildings of approximately HK\$5,600,000 (2007: HK\$4,286,000)
(4)	4,338 (note 6)	9,269	CAD	CAD	variable rate of 0.75% above CAD prime lending rate	variable rate of 0.75% above CAD prime lending rate	Inventories and trade receivables of approximately HK\$6,368,000 and HK\$13,592,000 (2007: HK\$8,362,000 and HK\$20,948,000) respectively

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 30. BANK BORROWINGS (CONTINUED)

	Outstanding amount		Original currency		Effective interest rate		Assets pledged
	2008 HK\$'000	2007 HK\$'000	2008	2007	2008	2007	
(5)	3,100	-	USD	-	LIBOR fixed at the day of borrowing +1.25%	-	Bank deposits of approximately HK\$930,000 (2007: HK\$nil)
(6)	2,800	-	HKD	-	LIBOR fixed at the day of borrowing +1.25%	-	Bank deposits of approximately HK\$840,000 (2007: HK\$nil)

During the year, the Group obtained new loans in the amount of approximately HK\$143,998,000. The loans bear interest at market rates and will be repayable in 2009. The proceeds were used to finance the operation of the Group.

### 31. DERIVATIVE FINANCIAL INSTRUMENT

	Current liability	
	2008 HK\$'000	2007 HK\$'000
Fair value of foreign currency forward contract (not under hedge accounting)	27	-

Major terms of the foreign currency forward contract are as follows:

Notional amount	Maturity	Exchange rates
Buy USD 552,292	23rd January 2009	RMB 6.88 = US\$ 1

### 32. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENT

On 6th April 2006, the Company issued 8% convertible redeemable bonds ("Convertible Bonds") due 2011 at a principal amount of US\$5,000,000 (equivalent to approximately HK\$38,791,000). The Convertible Bonds can be converted up to an aggregate 96,977,500 ordinary shares of the Company at HK\$0.40 each. The Company shall have the option to redeem the Convertible Bonds in whole or in part (i) at any time after the second anniversary of the date of issue of the Convertible Bonds until 30 days prior to the maturity date, provided that the average closing price of the shares stated in the daily quotation sheet of the Stock Exchange for 20 consecutive trading days exceed 130% of the prevailing conversion price; or (ii) at any time the outstanding Convertible Bonds is less than 20% of the total issued amount. The amount payable for any redemption shall be 100% of the relevant amount of the principal amount of the Convertible Bonds so redeemed together with interest accrued thereon up to the date of repayment. On the second, third and fourth anniversary of the date of issue of the Convertible Bonds and only on such date, each holder of the Convertible Bonds shall have the right at such holder's option to require the Company to redeem the Convertible Bonds held by such holder at 100% of the principal amount with respect to such Convertible Bonds together with interest accrued thereon up to the date of repayment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 32. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENT (CONTINUED)

The Convertible Bonds contain two components, a liability component and an embedded derivative financial instrument. The fair value of the liability component, included in non-current liabilities, amounted to approximately HK\$31,211,000, net of transaction costs, at the issuance date. The fair value of the embedded derivative financial instrument was estimated at the issuance date by reference to the Binomial Model. The effective interest rate of the liability component is 12.9%. The embedded derivative is subsequently measured at fair value with changes in fair value recognised in profit or loss.

The movement of the liability component and embedded derivative financial instrument for the years is set out as below:

	Liability component HK\$'000	Embedded derivative financial instrument HK\$'000
Carrying amount at 1st January 2007	34,795	6,604
Interest charge ( <i>note 11</i> )	4,320	–
Interest paid	(3,100)	–
Exchange realignment	94	22
Gains arising on changes of fair value	–	(33)
	<hr/>	<hr/>
At 31st December 2007 and 1st January 2008	36,109	6,593
Interest charge ( <i>note 11</i> )	4,447	–
Interest paid	(3,100)	–
Exchange realignment	(252)	–
Gain arising on changes of fair value	–	(4,448)
	<hr/>	<hr/>
At 31st December 2008	37,204	2,145

### 33. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$'000
Authorised:		
At 1st January 2007, 31st December 2007 and 31st December 2008	20,000,000,000	200,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st January 2007, 31st December 2007 and 31st December 2008	325,089,974	3,251
	<hr/>	<hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 34. COMMITMENTS

#### (a) Capital commitment

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>134</b>	15,639

#### (b) Operating leases

*The Group as lessee*

Minimum lease payments paid under operating leases during the year.

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Rented premises	<b>1,308</b>	1,898

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Within one year	<b>1,128</b>	1,043
In the second to fifth year inclusive	<b>2,450</b>	3,741
	<b>3,578</b>	4,784

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases and rentals are negotiated and fixed respectively for an average of 3 years.

### 35. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

#### (a) Sales and purchases

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Sonavox Electronics (Suzhou Industrial Park) Company Limited ( <i>i and ii</i> )		
– Sales	<b>582</b>	984
– Purchases	–	19,231
Asian Elite International Company Limited ( <i>i and ii</i> )		
– Purchases	–	10,256

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 35. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Key management compensation

	2008 HK\$'000	2007 HK\$'000
Salaries and other short-term employee benefits	4,760	2,057

#### (c) Amounts due from related parties

	2008 HK\$'000	2007 HK\$'000
Trade receivables due from Asian Elite International Company Limited (i) (Note 24)	184	172
Trade receivables due from Sonavox Electronics (Suzhou Industrial Park Co. Limited (i) (Note 24)	526	–
Amount due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, minority shareholder of a subsidiary (Note 25)	3,500	246
Trade payables to Sonavox Electronics Inc. (i)	4	4
Trade payables to Asian Elite International Company Limited (i)	18	18

Notes:

- (i) Mr. Yang Tsu Ying and Mr. Yang Ching Yau have beneficial interests.
- (ii) In the opinion of the directors of the Company, the above transactions with related companies are carried out in the ordinary course of business on terms as agreed with the related parties.

### 36. SHARE-BASED COMPENSATION

The Group adopted a share option scheme which became effective on 8th July 2002. Under which, share options are granted to 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

**36. SHARE-BASED COMPENSATION (CONTINUED)**

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% 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 December 2008, the number of shares of the Company in respect of which options had remained outstanding under the share option scheme of the Company was 10,000,000 (2007: 12,000,000), representing 3.1% (2007: 3.7%) of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

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

	Date of grant	Outstanding at 1/1/2007, 31/12/2007 and 1/1/2008 '000	Granted during the year '000	Cancelled during the year '000	Outstanding 31/12/2008 '000	Exercise share price HK\$
Directors	28/6/2005	4,000	–	–	4,000	0.345
Employees	28/6/2005	8,000	–	(2,000)	6,000	0.345
		12,000	–	(2,000)	10,000	
Exercisable at the end of the year					10,000	

Share options outstanding at the end of both years will expire on 27th June 2015.

No share options have been granted to the directors and employees during the years ended 31st December 2008 and 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 37. RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme at 5% of the employees' earnings with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month and thereafter contributions are voluntary. During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to approximately HK\$30,000 (2007: HK\$12,000).

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China at a rate of 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. For the year ended 31st December 2008, the aggregate amount of the Group's employer contributions was approximately HK\$2,841,000 (2007: HK\$1,896,000).

SCI does not provide any private retirement plan to its employees but it has to match employee contribution to the mandatory Canada Pension Plan ("CPP"), which is a national pension plan administered by Human Resources and Social Development Canada on behalf of employees in all provinces and territories except Quebec. The employees contribute to CPP according to the prescribed rate of the year. SCI matches the employee contribution, effectively doubling the contributions of the employees. SCI has no further obligation to the CPP other than matching the employee contribution. In 2008, the prescribed contribution rate is 4.95% (2007: 4.9%) of a salaried worker's employment income between approximately HK\$33,000 and HK\$330,000 (2007: HK\$26,000 and HK\$319,000). The total amount contributed by SCI to CPP during the year ended 31st December 2008 was approximately HK\$ 493,000 (2007: HK\$489,000).

### 38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December 2007, the Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK\$91,000.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 39. BALANCE SHEET OF THE COMPANY

	2008 HK\$'000	2007 HK\$'000
<b>Non-current asset</b>		
Investments in subsidiaries	16,204	16,204
<b>Current assets</b>		
Prepayments and deposits	122	122
Amounts due from subsidiaries	84,751	84,659
Cash and bank balances	2,064	3,214
	<b>86,937</b>	87,995
<b>Current liabilities</b>		
Accruals and other payables	625	598
Amount due to ultimate holding company	5,604	–
Bank borrowings – due within one year	6,002	6,003
Embedded derivative financial instrument	2,145	6,593
	<b>14,376</b>	13,194
<b>Net current assets</b>	<b>72,561</b>	74,801
<b>Total assets less current liabilities</b>	<b>88,765</b>	91,005
<b>Capital and reserves</b>		
Share capital	3,251	3,251
Share premium	27,682	27,682
Share-based payment reserve	1,623	1,948
Merger reserve	19,550	19,550
Accumulated (losses)/profits	(2,810)	83
<b>Total equity</b>	<b>49,296</b>	52,514
<b>Non-current liabilities</b>		
Bank borrowings – due after one year	2,265	2,382
Convertible bonds	37,204	36,109
	<b>39,469</b>	38,491
	<b>88,765</b>	91,005

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2008

### 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ operation	Class of share held	Issued/paid up share capital	Proportion ownership interest held by the Company		Principal activities
				directly	indirectly	
Taraki Inc.	BVI	Ordinary	USD2	100%	–	Investment holding
Indigo Enterprise Inc.	Samoa	Ordinary	USD1	100%	–	Investment holding
Taraki Services Company Limited	Hong Kong	Ordinary	HK\$2	–	100%	Provision of management services to group companies
Wise Point Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Sonavox Electronics Company Limited	Samoa	Ordinary	USD1	–	100%	Inactive
Sonavox Canada Inc.	Canada	Common share	CAD504,103	–	100%	Design, development and marketing of home and automotive audio products
Shangsheng Electrics (a)	PRC	Registered capital	USD5,000,000	–	51%	Manufacture and sales of loudspeaker systems for automobiles
Sonavox Acoustics (a)	PRC	Registered capital	USD2,500,000	–	51%	Manufacture and sales of loudspeaker systems for home theatres
Shangsheng Technology (a)	PRC	Registered capital	USD5,123,885	–	51%	Manufacture and sales of loudspeaker systems
Suzhou Hesheng (a)	PRC	Registered capital	USD1,013,389	–	51%	Manufacture and sales of parts for loudspeaker systems
Detroit Sonavox Inc.	United State of America	Ordinary	USD1	–	51%	Provision of after-sales services
Sonavox Europe GmbH	Germany	Ordinary	EUR25,000	–	51%	Provision of after-sales services

Note:

(a) They are sino-foreign equity joint ventures

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.