Annual Report 2009

SONAVOX

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

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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
18th Floor
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

AUDITORS

BDO 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

FIVE YEARS FINANCIAL SUMMARY

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2005 HK$'000	2006 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000 (Restated)	**2009 HK$'000**
Turnover	234,288	369,302	429,972	389,131	**434,766**
Cost of sales	(189,686)	(306,103)	(353,702)	(328,764)	**(336,876)**
Gross profit	44,602	63,199	76,270	60,367	**97,890**
Other revenue, gains and losses	567	4,805	2,695	10,104	**(433)**
Selling and marketing costs	(12,591)	(15,403)	(16,434)	(13,721)	**(13,051)**
Administrative expenses	(20,295)	(34,024)	(50,929)	(64,186)	**(60,337)**
Finance costs	(1,548)	(6,711)	(11,100)	(11,808)	**(10,178)**
Profit/(loss) before income tax expense	10,735	11,866	502	(19,244)	**13,891**
Income tax expense	(5,920)	(3,156)	1,704	(1,549)	**(947)**
Profit/(loss) after income tax expense	4,815	8,710	2,206	(20,793)	**12,944**
Minority interests	(4,792)	(5,108)	(3,940)	6,373	**(16,157)**
Profit/(loss) attributable to owners of the Company	23	3,602	(1,734)	(14,420)	**(3,213)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2005 HK$'000	2006 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000 (Restated)	**2009 HK$'000**
Total assets	228,602	362,940	424,974	421,659	**534,066**
Total liabilities	(95,604)	(214,726)	(258,037)	(260,304)	**(352,754)**
Total assets less total liabilities	132,998	148,214	166,937	161,355	**181,312**
Minority interests	(58,250)	(63,358)	(74,671)	(80,769)	**(98,817)**
Equity attributable to owners of the Company	74,748	84,856	92,266	80,586	**82,495**

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 31 December 2009.

OVERVIEW

It has been a year of challenge after global financial turmoil. To cope with the uncertain market environment in 2009, the Group focused on implementing strategies to stabilize its operations and ensure proper deployment. With solid establishment in loudspeaker industry, the Group was committed to strengthen its core businesses of manufacture and sales of high performance loudspeaker products to major automakers around the world, such as Ford Motor Company, Volkswagen, Audi and Shanghai General Motors. The Group has been benefited from their strong demand during the year under review, demonstrating the gradual recovery of the consumer market. Sales achieved in the second half of the fiscal year were relatively strong, and thus enabling us to have a 12% growth in turnover during the year when compared with 2008.

In addition, our strong research and development capacities in China and Canada promised new growth opportunities. The Group continued to launch new and competitive multimedia and home theatre products, such as solar-powered loudspeaker system, to satisfy our renowned customers' needs. These new projects will become growth drivers for the Group's business for the year ahead.

PROSPECTS

With the American economy showing tendencies of recovery, it will be possible for the world economy to gradually resume its normal pace of development. However, we expect the operating environment for the year of 2010 will continue to be challenging. Threat of rising raw material costs continues to exist, but we anticipate lower levels of volatility. There will be continued intense competition from other industry players.

There is a high level of commitment from the management team of the Group to achieve ambitious targets in the coming years. We will build on our strong position in China, together with consistent quality and advance of expertise to ensure competitiveness through technology by reinforcing the technical improvement of products, accelerating the development of new products and other improvement measures. The management will continue to monitor the performance of the Group's business and the Group will further enhance its profitability by improving operational effectiveness and cost structure. Our persistent strive of quality and research and development improvement will allow the Group to capture the immense business opportunities ahead.

APPRECIATION

On behalf of the Board, I would like to thank our fellow shareholders and business partners for their support and co-operations for the past years, and also our customers for their business and for putting their trust in us. In addition, our management teams and staff members have also given their commitment and dedication to providing efficient, effective and qualify service to our customers and we are grateful for their tremendous effort and enthusiasm during the year.

Yang Tsu Ying
Chairman

Hong Kong, 26 March 2010

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.

Though business environment remains competitive and challenging after global financial turmoil in 2008, the Group's performance has been improved since second quarter of 2009. As a result of economy recovery, there was a significant rebound of shipments to customers during the year under review. Total turnover of the Group was increased by 12% to approximately HK$434.8 million for the year ended 31 December 2009 (2008 (restated): HK$389.1 million).

The Group continued to maintain its leading loudspeaker manufacturer position in the China market. Chinese government has implemented a series of forceful measures to stimulate the economy and support automotive industry. According to statistics from the China Association of Automobile Manufacturers, vehicle sales in China amounted to 13 million units in 2009, which have exceeded that in the United States of America. China became the most important market of the Group, and sales of loudspeaker systems in China contributed 43% of the Group's turnover for year ended 31 December 2009 (2008: 39%).

Looking forward, the Directors believe the Group will be benefited from continuous establishment of business relationships with leading automakers around the world, including but not limited to Ford Motor Company, Volkswagen and Audi. The Directors are confident that with the Group's solid foundation, times of challenge bring opportunity for the Group to break away from competitors and take business to next level of market leadership in China automobile loudspeaker industry.

FINANCIAL REVIEW

Sales of loudspeaker systems for automobiles was increased by 33% to approximately HK$354.2 million for year ended 31 December 2009 (2008 (restated): HK$265.6 million), which accounted for approximately 81% (2008: approximately 68%) of its total turnover. The Group recorded sales of approximately HK$80.6 million (2008: HK$123.5 million) from sales of loudspeaker systems for home theatre. Increase in overall sales by 12% was primarily attributable to recovery of automobile market and hence rebound of shipments to customers during the year.

The Group's performance was benefited from increase in production and steady raw material prices during the year under review. The gross profit margin ratio for the year ended 31 December 2009 was about 22.5%, while it was about 15.5% in the previous year. As a result of increase in gross profit ratio, the Group recorded profit before income tax of approximately HK$13.9 million for year ended 31 December 2009 (2008 (restated): loss of HK$19.2 million). The profit before income tax was arrived at after charging fair value loss on embedded derivative of approximately HK$5.3 million which was non-cash in nature for the year ended 31 December 2009 (2008: gain of HK$4.4 million).

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

For the year ended 31 December 2009, 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 31 December 2009, the Group had cash and bank deposits of approximately HK$64,794,000 (2008: HK$27,909,000). The Group's current ratio stood at 0.99 at 31 December 2009 (2008: 0.86). The increase in cash and bank deposits was primarily attributable to the profit generated from operating activities during the year under review. The Group had bank overdrafts of approximately HK$9,622,000 (2008: HK$4,338,000) bearing interest rates at Canadian dollars ("CAD") prime lending rate plus 3.75% per annum and short-term bank loans of approximately HK$83,635,000 (2008: HK$86,696,000) bearing interest rates ranging from 5.31% to 5.76% 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 CAD. The Group's liquidity and financial arrangements are reviewed regularly by the Board and senior management.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2009, the Group has capital commitment of approximately HK$10,284,000 (2008: HK$134,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK$2,654,000 (2008: HK$3,578,000).

Suzhou Hesheng Industries Co., Ltd. were established with registered capital of US$5,000,000. As at 31 December 2009, the Company had outstanding commitments of approximately US$1,979,000 respectively for capital contribution to the subsidiary.

As at 31 December 2009, 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$128,966,000 for overdrafts and loan financing as at 31 December 2009. Unused bank facilities as at the same date amounted to approximately HK$9,866,000. 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 31 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31 December 2009 and 2008 were set out below:

	2009	2008
Management and administration	**98**	95
Sales and marketing	**63**	56
Manufacturing and operations	**1,509**	1,269
Research and development	**55**	59
Quality assurance and quality control	**132**	135
Finance and accounting	**13**	13
Total	**1,870**	1,627

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 31 December 2009 amounted to approximately HK$75,870,000 (2008: HK$77,050,000). The Company's directors had received remuneration of approximately HK$613,000 (2008: HK$662,000) during the year ended 31 December 2009.

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 76, 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 40, is the chief executive officer and one of the founders of the Group. He has over eighteen 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 46, joined the Group in July 2002, and has over seventeen 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 48, 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 48, joined the Group in 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 52, 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 seventeen 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 54, 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 45, 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 34, 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 twelve 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

INTRODUCTION

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 31 December 2009, 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 31 December 2009. 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 31 December 2009.

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.

In compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. 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.

As at 31 December 2009, 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.

Board meeting is held at least four 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.

CORPORATE GOVERNANCE REPORT

The Board held seven meetings during the year ended 31 December 2009. The attendance record of each Director is as follows:

	Number of meetings attended/eligible to attend
Executive Directors:	
Mr. Yang Tsu Ying	5/7
Mr. Yang Ching Yau	7/7
Independent non-executive Directors:	
Mr. Yiu Chi Wah	6/7
Mr. Fan Chi Fai, Paul	4/7
Mr. Lee Fang Yu	6/7

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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

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.

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:

(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 nomination committee has been held during the year. All members of the nomination committee attended the meeting.

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 28 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2009, five 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:

	Number of meetings attended/eligible to attend
Mr. Fan Chi Fai, Paul	5/5
Mr. Yiu Chi Wah	4/5
Mr. Lee Fang Yu	5/5

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 the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining sound and effective internal control system to safeguard the interests of the shareholders and the assets of the Company. The Board will from time to time conduct a review of the Group's internal control systems. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Group, covering financial, operational, compliance and risk management aspects of the Group.

AUDITORS' REMUNERATION

For the year ended 31 December 2009, auditors' remuneration of HK$420,000 is payable to BDO Limited for annual audit services. No other non-audit related services were performed by BDO 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 31 December 2009.

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 18 to the financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 23.

The Directors do not recommend the payment of any dividends in respect of the year (2008: HK$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 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE – BASED COMPENSATION

Details of the movements in share capital and share options of the Company during the year are set out in notes 34 and 38 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 27.

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. Fan Chi Fai, Paul
Mr. Lee Fang Yu

In accordance with articles 108(A) of the articles of association of the Company, Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu are not appointed for specific contracted terms but are subject to retirement by rotation in accordance with the articles of association of the Company.

REPORT OF THE DIRECTORS

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 37 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 31 December 2009, 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

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

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

(b) LONG POSITIONS IN THE SHARES OF EQUITY DERIVATIVES OF THE COMPANY

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

Save as disclosed above, as at 31 December 2009, 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 31 December 2009, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) LONG POSITIONS IN THE SHARES OF THE COMPANY

Name	Capacity	Number of ordinary shares held	Percentage of interest
Newood Consultancy Limited *(Note 1)*	Beneficial owner	240,000,000	73.83%
Silver Way Limited *(Note 1)*	Interest of a controlled corporation	240,000,000	73.83%
Deutsche Bank International Trust Co. (Cayman) Limited *(Note 1)*	Trustee	240,000,000	73.83%
Mr. Yang Tsu Ying *(Note 1)*	Beneficiary of a trust	240,000,000	73.83%
Mr. Yang Ching Yau *(Note 1)*	Beneficiary of a trust	240,000,000	73.83%
Madam Yang Chuang Ching-Hsiu *(Note 2)*	Interest of spouse	240,000,000	73.83%
Ms. Helen Lee *(Note 3)*	Interest of spouse	240,000,000	73.83%

REPORT OF THE DIRECTORS

(b) LONG POSITIONS IN THE SHARES OF EQUITY DERIVATIVES OF THE COMPANY

Name	Capacity	Description of equity derivatives	Number of share options	Percentage of interest
Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.615%
Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.615%
Yang Chuang Ching-Hsiu *(Note 2)*	Interest of spouse	Share option	2,000,000	0.615%
Helen Lee *(Note 3)*	Interest of spouse	Share option	2,000,000	0.615%

Notes:

1. Newood Consultancy Limited is a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by Deutsche Bank International Trust Co. (Cayman) 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 31 December 2009, 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 – BASED COMPENSATION

Particulars of the Company's share option scheme are set out in note 38 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 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31 December 2009	Exercisable period	Exercise price per share of the Company HK$
(a) Director							
Mr. Yang Tsu Ying	2,000,000	–	–	–	2,000,000	28 June 2006 to 27 June 2015	0.345
Mr. Yang Ching Yau	2,000,000	–	–	–	2,000,000	28 June 2006 to 27 June 2015	0.345
(b) Others in aggregate	6,000,000	–	–	–	6,000,000	28 Jun 2006 to 27 June 2015	0.345
	10,000,000	–	–	–	10,000,000		

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 38 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.

CONNECTED PARTY TRANSACTIONS

On 28 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 31 December 2009, there was no purchases from Asian Elite and Sonavox Electronics by Sonavox Acoustics under the Agreements.

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 15 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 16 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 38 to the consolidated financial statements.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the five largest customers accounted for approximately 47% (2008: approximately 42%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 24% (2008: approximately 27%) of the Group's total purchases. The largest customer of the Group accounted for approximately 20% (2008: approximately 21%) of the Group's total turnover while the largest supplier accounted for approximately 14% (2008: approximately 16%) 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.

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 31 December 2009 with the management and the external auditors.

REPORT OF THE DIRECTORS

AUDITORS

On 3 November 2009, BDO Limited was appointed by the Board to fill the casual vacancy created by SHINEWING (HK) CPA Limited. BDO Limited will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yang Tsu Ying
Chairman

26 March 2010

INDEPENDENT AUDITOR'S REPORT

BDO Limited
Certified Public Accountants
德豪會計師事務所有限公司

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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") set out on pages 23 to 83, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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 financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 Company and of the Group as at 31 December 2009 and of the Group's profit 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 4(b) to the consolidated financial statements which indicates that as of 31 December 2009, the Group's current liabilities exceeded its current assets by approximately HK$2,931,000. This condition, along with other matters as set forth in note 4(b), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

BDO LIMITED
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 26 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
Turnover	8	**434,766**	389,131
Cost of sales		**(336,876)**	(328,764)
Gross profit		**97,890**	60,367
Other revenue, gains and losses		**(433)**	10,104
Selling and marketing costs		**(13,051)**	(13,721)
Administrative expenses		**(60,337)**	(64,186)
Finance costs	9	**(10,178)**	(11,808)
Profit/(loss) before income tax expense	11	**13,891**	(19,244)
Income tax expense	12	**(947)**	(1,549)
Profit/(loss) for the year		**12,944**	(20,793)
Other comprehensive income			
– gain on revaluation of properties		**1,207**	18,187
– exchange differences on translating foreign operations		**5,320**	612
– income tax relating to revaluation of properties		**(199)**	(3,588)
Other comprehensive income for the year, net of tax		**6,328**	15,211
Total comprehensive income for the year		**19,272**	(5,582)
Profit/(loss) attributable to:			
– owners of the Company		**(3,213)**	(14,420)
– minority interests		**16,157**	(6,373)
		12,944	(20,793)
Total comprehensive income attributable to:			
– owners of the Company		**1,909**	(11,680)
– minority interests		**17,363**	6,098
		19,272	(5,582)
Losses per share (HK cent)			
– basic	14	**(0.99)**	(4.44)
– diluted	14	**(0.96)**	(4.44)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	At 31 December 2009 HK$'000	2008 HK$'000 (Restated)	At 1 January 2008 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	17	**184,561**	191,547	167,147
Investment properties	19	**7,933**	–	–
Prepaid lease payments	20	**15,956**	16,326	12,649
Deferred tax assets	21	**7,251**	6,294	11,700
Intangible assets	22	**16,821**	15,746	21,532
Goodwill	23	**5,788**	4,966	6,316
Total non-current assets		**238,310**	234,879	219,344
Current assets				
Inventories	24	**55,524**	57,470	53,730
Trade and note receivables	25	**153,103**	88,359	114,974
Prepayments, deposits and other receivables		**19,508**	9,542	11,490
Amount due from minority shareholder of a subsidiary	26	**2,827**	3,500	246
Pledged bank deposits	27	**15,766**	15,149	–
Cash and cash equivalents		**49,028**	12,760	25,190
Total current assets		**295,756**	186,780	205,630
Total assets		**534,066**	421,659	424,974
Current liabilities				
Trade and note payables	28	**133,979**	84,909	101,238
Accruals and other payables		**42,683**	31,398	29,601
Amount due to ultimate holding company	29	**13,353**	5,604	–
Amount due to minority shareholder of a subsidiary	26	**11,376**	–	–
Derivative financial instrument	32	**–**	27	–
Obligations under finance leases – due within one year	30	**59**	134	326
Bank borrowings – due within one year	31	**93,361**	91,136	76,262
Current tax liabilities		**3,876**	2,927	3,403
Total current liabilities		**298,687**	216,135	210,830
Net current liabilities		**(2,931)**	(29,355)	(5,200)
Total assets less current liabilities		**235,379**	205,524	214,144

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

		At 31 December		At 1 January
	Notes	**2009 HK$'000**	2008 HK$'000 (Restated)	2008 HK$'000 (Restated)
Non-current liabilities				
Obligations under finance leases – due after one year	30	**–**	51	231
Deferred tax liabilities	21	**2,622**	2,504	1,892
Bank borrowings – due after one year	31	**2,161**	2,265	2,382
Embedded derivative financial instrument	33	**7,426**	2,145	6,593
Convertible bonds	33	**41,858**	37,204	36,109
Total non-current liabilities		**54,067**	44,169	47,207
TOTAL NET ASSETS		**181,312**	161,355	166,937
Capital and reserves attributable to owners of the Company				
Share capital	34	**3,251**	3,251	3,251
Reserves	35	**79,244**	77,335	89,015
Equity attributable to owners of the Company		**82,495**	80,586	92,266
Minority interests		**98,817**	80,769	74,671
TOTAL EQUITY		**181,312**	161,355	166,937

On behalf of the Board

Yang Tsu Ying
Chairman

Yang Ching Yau
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
Non-current assets			
Investments in subsidiaries	18	**16,204**	16,204
Property, plant and equipment	17	**4**	–
Total non-current assets		**16,208**	16,204
Current assets			
Prepayments and deposits		**104**	122
Amounts due from subsidiaries	18	**84,788**	84,751
Cash and bank balances		**961**	2,064
Total current assets		**85,853**	86,937
Total assets		**102,061**	103,141
Current liabilities			
Accruals and other payables		**641**	625
Amount due to ultimate holding company	29	**13,353**	5,604
Bank borrowings – due within one year	31	**104**	6,002
Total current liabilities		**14,098**	12,231
Net current assets		**71,755**	74,706
Total assets less current liabilities		**87,963**	90,910
Non-current liabilities			
Bank borrowings – due after one year	31	**2,161**	2,265
Embedded derivative financial instrument	33	**7,426**	2,145
Convertible bonds	33	**41,858**	37,204
Total non-current liabilities		**51,445**	41,614
TOTAL NET ASSETS		**36,518**	49,296
Capital and reserves			
Share capital	34	**3,251**	3,251
Reserves	35	**33,267**	46,045
TOTAL EQUITY		**36,518**	49,296

On behalf of the Board

Yang Tsu Ying
Chairman

Yang Ching Yau
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	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	Equity attributable to owners of the Company	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 1 January 2008 (Previously reported)	3,251	27,682	2,598	7,250	1,948	2,441	15,235	27,735	88,140	70,706	158,846
Restatement of prior periods and opening balances *(Note 3)*	–	–	–	–	–	–	164	3,962	4,126	3,965	8,091
At 1 January 2008 (Restated)	3,251	27,682	2,598	7,250	1,948	2,441	15,399	31,697	92,266	74,671	166,937
Total comprehensive income for the year (Restated)	–	–	8,074	–	–	–	(5,334)	(14,420)	(11,680)	6,098	(5,582)
Cancellation of share options previously granted	–	–	–	–	(325)	–	–	325	–	–	–
At 31 December 2008 (Restated)	3,251	27,682	10,672	7,250	1,623	2,441	10,065	17,602	80,586	80,769	161,355
At 1 January 2009 (Previously reported)	3,251	27,682	10,672	7,250	1,623	2,441	15,467	18,679	87,065	75,700	162,765
Restatement of prior periods and opening balances *(Note 3)*	–	–	–	–	–	–	(5,402)	(1,077)	(6,479)	5,069	(1,410)
At 1 January 2009 (Restated)	3,251	27,682	10,672	7,250	1,623	2,441	10,065	17,602	80,586	80,769	161,355
Total comprehensive income for the year	–	–	1,008	–	–	–	4,114	(3,213)	1,909	17,363	19,272
Release of reserve	–	–	–	(438)	–	–	–	438	–	–	–
Additional capital injected into a subsidiary	–	–	–	–	–	–	–	–	–	685	685
At 31 December 2009	3,251	27,682	11,680	6,812	1,623	2,441	14,179	14,827	82,495	98,817	181,312

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the group entities 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 those group entities.

(b) Merger reserve

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000 (Restated)
Cash flows from operating activities		
Profit/(loss) before income tax expense	**13,891**	(19,244)
Adjustments for:		
Interest income	**(533)**	(415)
Finance costs	**10,178**	11,808
Depreciation and amortisation	**19,729**	21,275
Fair value changes on embedded derivative financial instrument	**5,281**	(4,448)
Fair value change on derivative financial instrument	**(27)**	27
Allowance for bad and doubtful debts	**–**	178
Gain on disposal of property, plant and equipment	**(16)**	(1)
Allowance for inventories	**2,496**	2,664
Operating profit before working capital changes	**50,999**	11,844
Increase in inventories	**(550)**	(6,404)
(Increase)/decrease in trade and note receivables	**(64,744)**	26,817
(Increase)/decrease in prepayments, deposits and other receivables	**(9,966)**	1,948
Increase/(decrease) in trade and notes payables	**49,070**	(16,329)
Increase in accruals and other payables	**11,285**	1,797
Cash generated from operations	**36,094**	19,673
Income tax paid in the PRC	**–**	(966)
Net cash from operating activities	**36,094**	18,707
Cash flows from investing activities		
Payment of acquisition of property, plant and equipment	**(17,724)**	(17,221)
Proceeds from disposal of property, plant and equipment	**644**	114
Payments for interests in leasehold land held for own use under operating leases	**–**	(3,389)
Increase in pledged bank deposits	**(617)**	(15,149)
Repayment from/(advance to) a minority shareholder of a subsidiary	**673**	(3,254)
Interest received	**533**	415
Net cash used in investing activities	**(16,491)**	(38,484)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000 (Restated)
Cash flows from financing activities		
Interest paid	**(5,524)**	(10,461)
Proceeds from bank borrowings	**86,963**	143,998
Repayment of bank borrowings	**(90,178)**	(124,310)
Repayment of principal portion of obligations under finance leases	**(126)**	(372)
Advance from minority shareholder of a subsidiary	**11,376**	–
Additional advance from ultimate holding company	**7,749**	5,604
Net cash from financing activities	**10,260**	14,459
Net increase/(decrease) in cash and cash equivalents	**29,863**	(5,318)
Cash and cash equivalents at beginning of year	**8,422**	15,921
Effect of exchange rate changes on cash and cash equivalents	**1,121**	(2,181)
Cash and cash equivalents at end of year	**39,406**	8,422
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**49,028**	12,760
Bank overdrafts	**(9,622)**	(4,338)
Cash and cash equivalents at end of year	**39,406**	8,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. *GENERAL INFORMATION*

The principal activities of Sonavox International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are investment holding and manufacturing and sale of loudspeaker systems to customers in the PRC and overseas markets respectively.

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 19 July 2002.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")*

(a) Adoption of new/revised HKFRSs

The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)*

(a) Adoption of new/revised HKFRSs (continued)

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes. All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

HKAS 1 (Revised), "Presentation of Financial Statements"

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the "Statement of Comprehensive Income", the "Statement of Financial Position" and the "Statement of Cash Flows" respectively. All income and expenses arising from transaction with non-owners are presented under the "Statement of Comprehensive Income"; while the owners' changes in equity are presented in the "Statement of Changes in Equity".

In addition, following the adoption of amendment to HKAS 1, as part of the Improvement to HKFRSs 2008, derivative financial instruments that are not expected to be realised within 12 months after the reporting period are classified as non-current assets or non-current liabilities. The Group's embedded derivative financial liabilities (Note 33) were previously classified as current liabilities. The reclassification has been applied retrospectively and comparative figures have been restated accordingly.

HKAS 23 (Revised), "Borrowing Costs"

The revised standard removes the option to expense borrowing costs and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. This change in accounting policy had no material impact on earnings per share and comparative figures have not been restated as a result of the adoption of this standard.

Pursuant to the transitional provision of the standard, group entities capitalise borrowing costs for all qualified assets where construction was commenced on or after 1 January 2009 and expense all borrowing costs relating to construction projects that commenced prior to 1 January 2009.

HKFRS 8, "Operating Segments"

HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As a result of adopting HKFRS 8, the Group identified two operating segments based on the geographical locations of group entities that are provided to the chief operating decision maker. The change of reporting structure did not result in a reallocation of goodwill for the purposes of impairment testing as required by HKAS 36 "Impairment of Assets".

HKFRS 7 (Amendment), "Improving Disclosures about Financial Instruments"

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)*

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's operations, have been issued and are mandatory for accounting periods beginning on or after 1 January 2010, but have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvement to HKFRSs 2009 [2]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions [3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKFRS 3 (Revised)	Business Combinations [1]
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners [1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [4]
HKAS 24 (Revised)	Related Party Disclosures [5]
HKFRS 9	Financial Instruments [6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) Business Combinations may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) "Consolidated and Separate Financial Statements" will affect the accounting treatment for changes in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The amendment to HKAS 17 "Leases" made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

HKFRS 9, which is effective for annual periods beginning on or after 1 January 2013, uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in HKAS 39. Thus HKFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

The Group is in the process of making an assessment of the potential impact of other new and revised HKFRSs and the directors so far concluded that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group except for the above.

3. PRIOR PERIOD ADJUSTMENTS

In preparing the current year's financial statements, the following comparative financial information has been restated:

(a) Certain foreign currency translation adjustments relating to the Group's sales transactions for the year of 2008 and the years before have been miscalculated and fully recognised in the year of 2008. Part of these translation adjustments should have been recognised prior to the year of 2008. As a result, the total comprehensive income for the year ended 31 December 2008 has been overstated by approximately HK$9,501,000 and the opening balance of equity as at 1 January 2008 have been understated by HK$8,091,000.

(b) The exchange differences relating to the translation of the Group's non-wholly owned foreign operations to the presentation currency of these financial statements have been misallocated between the owners of the Company and the minority interests. As a result, the equity attributable to the owners of the Company has been overstated by HK$5,760,000 and the equity attributable to the minority interests has been understated by the same amount. This adjustment does not have any effect on the total equity at 31 December 2008 and the profit or loss for the year then ended.

As a result of the above restatement, a Consolidated Statement of Financial Position as at 1 January 2008 has also been presented in accordance with the requirement of the (Revised) HKAS 1. The effects of the prior period adjustments are summarised below:

Consolidated Statement of Comprehensive Income for the year ended 31 December 2008

As a result of issue (a)	**HK$'000**
Decrease in turnover	(3,174)
Decrease in cost of sales	529
Decrease in other revenue, gains and losses	(7,236)
Increase in loss for the year	(9,881)
Increase in exchange difference on translating foreign operations	380
Decrease in total comprehensive income for the year	(9,501)
Increase in loss for the year attributable to:	
– owners of the Company	(5,039)
– minority interests	(4,842)
	(9,881)
Decrease in total comprehensive income for the year attributable to:	
– owners of the Company	(4,845)
– minority interests	(4,656)
	(9,501)
Increase in losses per share (HK cent) – basic and diluted	(1.55)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Consolidated Statement of Financial Position

	31 December 2008 and 1 January 2009 HK$'000	1 January 2008 HK$'000
Equity attributable to the owners of the Company		
As a result of issue (a):		
(Decrease)/increase in accumulated profits	(1,077)	3,962
Increase in cumulative translation adjustment reserve	358	164
As a result of issue (b):		
Increase in cumulative translation adjustment reserve	(5,760)	–
	(6,479)	4,126
(Decrease)/increase in minority interests		
As a result of issue (a)	(691)	3,965
As a result of issue (b)	5,760	–
	5,069	3,965
(Decrease)/increase in total equity	(1,410)	8,091
Increase in trade and note receivables	–	9,466
Increase in other payables	(1,410)	(1,375)
	(1,410)	8,091

4. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis except for land and buildings, investment properties and certain financial instruments, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. *BASIS OF PREPARATION (CONTINUED)*

(b) Basis of measurement and going concern assumption (continued)

At 31 December 2009, the Group's current liabilities exceeded its current assets by HK$2,931,000 (2008 (restated): HK$29,355,000), which mainly includes bank and other loans repayable within one year of HK$118,149,000 (2008: HK$96,874,000). This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The directors of the Company are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration that sufficient cash flow will be generated from the Group's businesses based on the financial budget forecast approved by senior management covering five years.

In assessing the liquidity and going concern of the Group, the directors have also considered the repayment of the convertible bonds as disclosed in note 33 as scheduled in April 2011. The directors of the Company believe that the Group will have sufficient cash resources to satisfy the repayment of the convertible bonds. In addition, the ultimate holding company has agreed not to demand for repayment of the amount due by the Group until such time when repayment will not affect the Group's and the Company's ability to repay other creditors within twelve months from 31 December 2009.

Accordingly, these 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.

5. *SIGNIFICANT ACCOUNTING POLICIES*

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

Minority interests represent the portion of profit or loss and net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly through subsidiaries, by the Company. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the profit or loss and total comprehensive income for the year between minority interests and the owners of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying amount being recognised in profit or loss.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant 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 to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) Property, plant and equipment

Land and buildings of owner-occupied leasehold properties are stated at revalued amount, being their fair values at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in property revaluation reserve within equity. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the property revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released directly from the property revaluation reserve to accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(d) Property, plant and equipment (continued)

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Land and buildings	Over terms of leasehold land, or 40 years whichever is shorter
Leasehold improvements	5 years
Machinery, furniture and equipment	5 - 10 years
Motor vehicles	5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

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.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss.

(e) Prepaid lease payments

Prepaid lease payments represent up-front payments for interests in leasehold land held for own use under operating leases in which the Group acquires long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and building elements of property leases are considered separately for the purpose of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(g) Intangible assets

Research and development expenditures

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.

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. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment loss.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;
– breach of contract, such as a default or delinquency in interest or principal payments;
– granting concession to a debtor because of debtors' financial difficulty;
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(h) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For loans and receivables

An 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. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For certain types of loans and receivables, 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.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss or are expected not to be realised within 12 months after the end of reporting period.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

(h) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, accruals and other payables, amount due to ultimate holding company, bank borrowings and the debt element of convertible debt issued by the Group, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible bonds

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that 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, the conversion derivative is recognised at fair value, any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

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

When the convertible bonds are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible bonds are redeemed, and difference between the redemption amount and the carrying amounts of both components is 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 the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in 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.

(v) Effective interest method

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(vi) Equity instruments

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

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows from the financial asset expire or when the financial asset has been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Revenue recognition

Revenue from sales of goods, moulds and scrap materials is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Service fee income represents royalties which is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income taxes (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. 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. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

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.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

(l) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. The resulting translation differences are recognised in other comprehensive income and accumulated in cumulative translation adjustment reserve within equity. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the cumulative translation adjustment reserve.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Foreign currency (continued)

On disposal of a foreign operation, the cumulative exchange differences recognised in the cumulative translation adjustment reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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

(m) Employee benefits

(i) Defined contribution retirement plans

The group entities incorporated in Hong Kong make monthly contributions to a Mandatory Provident Fund Scheme (the "MPF Scheme"), which is a defined contribution scheme managed by an independent trustee for those employees who are eligible to participate in the MPF Scheme. The Group makes contributions based on a percentage of the eligible employees' salaries funded by the Group and are charged to profit or loss as they become payable in accordance with the rules of the MPF scheme.

In addition, the group entities incorporated in the PRC make monthly contributions to a stated-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to relevant laws and regulations in the PRC issued by local social security authorities.

(ii) 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 end of reporting period. Employee entitlements to non-accounting compensated absences are not recognised until the time of leave.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan, which is without realistic possibility of withdrawal.

(n) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Share based payments (continued)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

The Company 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 share-based payment reserve within equity. 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 the end of each reporting period, 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 profit or loss, with a corresponding adjustment to share-based payment reserve within equity.

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.

(o) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid lease payments;
- intangible assets with finite useful lives;
- investments in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an 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 an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. *CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY*

In the application of the Group's accounting policies, the directors 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 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

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Other details of assessment are stated in note 23 to the financial statements.

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.

7. *SEGMENT REPORTING*

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments, namely the Mainland China and North American. The segments are managed separately based on the geographical locations in which they operate. Both segments are engaged in one business, which is manufacturing and sale of loudspeaker systems.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT REPORTING (CONTINUED)

The segment information provided to the chief operating decision maker for reportable segments and reconciliation of the segments total to the amounts reported by the Group in these consolidated financial statements are as follows:

2009

	Mainland China HK$'000	North America HK$'000	Segments total HK$'000	Reconciliation *(Note (c))* HK$'000	Consolidated HK$'000
Revenue from external customers *(Note (a))*	370,933	63,833	434,766	–	434,766
Reportable segment profit/(loss) *(Note (b)(i))*	33,921	(16,895)	17,026	(3,135)	13,891
Depreciation and amortisation	16,825	2,686	19,511	218	19,729
Interest income	512	2	514	19	533
Interest expense	5,164	4,936	10,100	78	10,178
Impairment losses on inventories	2,496	–	2,496	–	2,496
Loss arising from fair value change of embedded derivative	–	(5,281)	(5,281)	–	(5,281)
Income tax expense	947	–	947	–	947
Segment assets *(Note (b)(ii))*	465,974	60,285	526,259	7,807	534,066
Segment liabilities *(Note (b)(iii))*	(260,116)	(75,904)	(336,020)	(16,734)	(352,754)
Addition to non-current assets: – property, plant and equipment	17,126	593	17,719	5	17,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT REPORTING (CONTINUED)

2008

	Mainland China HK$'000	North America HK$'000	Segments total HK$'000	Reconciliation *(Note (c))* HK$'000	Consolidated HK$'000
Revenue from external customers *(Note (a))*	294,872	94,259	389,131	–	389,131
Reportable segment loss *(Note (b)(i))*	(12,307)	(3,547)	(15,854)	(3,390)	(19,244)
Depreciation and amortisation	17,904	3,177	21,081	194	21,275
Interest income	392	11	403	12	415
Interest expense	6,566	4,902	11,468	340	11,808
Impairment losses on					
– inventories	2,664	–	2,664	–	2,664
– trade receivables	178	–	178	–	178
Gain arising from fair value change of embedded derivative	–	4,448	4,448	–	4,448
Income tax expense	1,549	–	1,549	–	1,549
Segment assets *(Note (b)(ii))*	361,733	52,042	413,775	7,884	421,659
Segment liabilities *(Note (b)(iii))*	(189,766)	(55,766)	(245,532)	(14,772)	(260,304)
Addition to non-current assets:					
– property, plant and equipment	17,144	77	17,221	–	17,221

Reconciliation of the segments' assets and liabilities to the amounts reported by the Group in these consolidated financial statements as at 1 January 2008 is as follows:

	Mainland China HK$'000	North America HK$'000	Segments total HK$'000	Reconciliation *(Note (c))* HK$'000	Consolidated HK$'000
Segment assets *(Note (b)(ii))*	370,875	46,440	417,315	7,659	424,974
Segment liabilities *(Note (b)(iii))*	(212,714)	(33,218)	(245,932)	(12,105)	(258,037)

7. SEGMENT REPORTING (CONTINUED)

Notes:

(a) Revenue of approximately HK$87,195,000 (2008: HK$81,874,000) was derived from a single external customer and is attributable to the reportable segment of "Mainland China".

(b) The differences in respect of the measurements of the reportable segments' profit or loss, segment assets and liabilities to the Group's profit or loss before income tax expense, assets and liabilities, respectively, are as follows:

(i) The amount mainly represents staff costs incurred in maintaining operation of corporate level of the Group.

(ii) The amount mainly represents corporate assets of land and building situated in Hong Kong.

(iii) The amount mainly represents bank borrowings at corporate level of the Group.

(c) Reconciliation represents unallocated corporate income and expenses, assets and liabilities as follows:

	2009 **HK$'000**	2008 HK$'000 (Restated)
Reportable segment profit/(loss)	**17,026**	(15,854)
Depreciation and amortisation	**(218)**	(194)
Directors' emoluments *(Note 16(a))*	**(613)**	(662)
Others	**(2,304)**	(2,534)
Profit/(loss) before income tax expense	**13,891**	(19,244)

	At 31 December		**At 1 January**
	2009 **HK$'000**	2008 HK$'000 (Restated)	2008 HK$'000 (Restated)
Assets			
Reportable segment assets	**526,259**	413,775	417,315
Unallocated corporate assets	**7,807**	7,884	7,659
Consolidated total assets	**534,066**	421,659	424,974
Liabilities			
Reportable segment liabilities	**336,020**	245,532	245,932
Unallocated corporate liabilities	**16,734**	14,772	12,105
Consolidated total liabilities	**352,754**	260,304	258,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

8. *TURNOVER*

Turnover, which is also the revenue, represents the net invoiced value of goods sold, net of discounts and sales related taxes.

9. *FINANCE COSTS*

	2009	2008
	HK$'000	HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years *(Note)*	**5,443**	7,252
– mortgage loan repayable over five years	**58**	72
– convertible bonds *(Note 33)*	**4,654**	4,447
– finance leases	**23**	37
	10,178	11,808

Note:

Included in interest on other borrowings is an amount of HK$78,000 (2008: HK$Nil) charged by a minority shareholder of a group entity in the PRC.

10. *STAFF COSTS*

	2009	2008
	HK$'000	HK$'000
Staff costs (including directors' emoluments *(Note 16(a))* comprise:		
– salaries and welfare expenses and other benefits	**69,642**	70,187
– retirement benefits scheme contributions	**6,228**	6,863
	75,870	77,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is arrived at after charging/(crediting):

	2009	2008
	HK$'000	HK$'000
		(Restated)
Inventories recognised as an expense	**336,876**	328,764
Depreciation of property, plant and equipment	**17,936**	19,244
Amortisation of intangible assets	**1,412**	1,521
Amortisation of prepaid lease payments	**381**	510
Auditor's remuneration	**420**	420
Research and development costs	**14,189**	11,713
Minimum lease payments under operating leases	**1,301**	1,314
Fair value loss on derivative financial instrument	**–**	27
Gain on disposal of property, plant and equipment	**(16)**	(1)
Exchange loss, net	**156**	758
Write-down of inventories	**2,496**	2,664
Fair value loss/(gain) on embedded derivative	**5,281**	(4,448)
Interest income	**(533)**	(415)
Mould income	**(778)**	(3,639)
Net income from sales of scrap materials	**(221)**	(318)
Royalty income	**(1,900)**	(3,391)
Subsidy income *(Note)*	**(1,318)**	(673)

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.

12. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as there is no assessable profits for the group entities operate in Hong Kong during the years ended 31 December 2009 and 2008.

With effect from 1 January 2008, the PRC Enterprise Income Tax ("EIT") rate for foreign-invested enterprises has been unified at 25%.

Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics") enjoys a preferential EIT rate of 15% as it has been granted the status of an Advanced and New Technology Enterprise.

Suzhou Shangsheng Technology Co., Ltd. ("Shangsheng Technology") and Suzhou Hesheng Industries Co., Ltd. ("Suzhou Hesheng") are entitled to full exemption from EIT for the years ended 31 December 2009 and 2008 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. Suzhou Hesheng has been reporting tax loss since its establishment. Shangsheng Technology was having its first profit-making year for the year ended 31 December 2008.

No EIT is payable for Suzhou Sonavox Acoustics Co., Ltd. since it was having tax loss for the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. *INCOME TAX EXPENSE (CONTINUED)*

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

	2009 HK$'000	2008 HK$'000 (Restated)
Current tax		
– PRC Enterprise Income Tax	**2,484**	–
– (Over)/under provision of EIT in prior years	**(1,455)**	490
Deferred tax *(Note 21)*		
– current year	**(82)**	541
– attributable to change of tax rate	**–**	518
Income tax expense	**947**	1,549

The income tax expense for the year can be reconciled to the profit/(loss) before income tax expense as per the consolidated statement of comprehensive income as follows:

	2009 HK$'000	2008 HK$'000 (Restated)
Profit/(loss) before income tax expense	**13,891**	(19,244)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,036**	(2,296)
(Over)/under provision of PRC enterprise income tax in prior years	**(1,455)**	490
Tax effect of expenses not deductible for tax purposes	**5,282**	2,925
Tax effect of income not taxable for tax purposes	**(271)**	(972)
Utilisation of previously unrecognised tax losses	**(507)**	(915)
Deferred tax asset in respect of unrecognised tax losses	**2,149**	5,498
Effect of concessionary tax rate	**(6,287)**	(3,699)
Effect of change in tax rate	**–**	518
Income tax expense	**947**	1,549

13. *PROFIT OR LOSS ATTRIBUTABLE TO SHAREHOLDERS*

Loss attributable to shareholders includes an amount of HK$12,778,000 (2008: HK$3,218,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. LOSSES PER SHARE

The calculation of the basic and diluted losses per share attributable to owners of the Company is based on the following data:

	2009		2008	
	Basic	**Diluted**	Basic (Restated)	Diluted (Restated)
Loss attributable to owners of the Company *(HK$'000)*	**(3,213)**	**(3,213)**	(14,420)	(14,420)
Weighted average number of ordinary shares, in thousand, for the purpose of losses per share	**325,090**	**335,090**	325,090	325,090
Losses per share *(HK cent)*	**(0.99)**	**(0.96)**	(4.44)	(4.44)

No dilutive effect for the year ended 31 December 2008 because the exercise price of the Company's share options was higher than the average market price for share in 2008.

15. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the years ended 31 December 2009 and 2008.

16. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2009 is set out below:

Name of director	**Directors' fees HK$'000**	**Basic salaries, other allowance and benefits in kind HK$'000**	**Total HK$'000**
Executive:			
– Mr Yang Tsu Ying	–	65	65
– Mr. Yang Ching Yau	–	260	260
Independent non-executive:			
– Mr. Fan Chi Fai, Paul	96	–	96
– Mr. Yiu Chi Wah	96	–	96
– Mr. Lee Fang Yu	96	–	96
	288	325	613

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For the year ended 31 December 2009

16. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

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

Name of director	Directors' fees HK$'000	Basic salaries, other allowance and benefits in kind HK$'000	Total HK$'000
Executive:			
– Mr Yang Tsu Ying	–	70	70
– Mr. Yang Ching Yau	–	280	280
Independent non-executive:			
– Mr. Fan Chi Fai, Paul	104	–	104
– Mr. Yiu Chi Wah	104	–	104
– Mr. Wong Kai Tung, Simon *(Note (1))*	60	–	60
– Mr. Lee Fang Yu *(Note (2))*	44	–	44
	312	350	662

Notes

1. Mr. Wong Kai Tung, Simon resigned on 14 July 2008
2. Mr. Lee Fang Yu was appointed on 14 July 2008

No director waived or agreed to waive any emoluments during the two years ended 31 December 2009 and 2008. 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 (2008: Nil). The emoluments of the five (2008: five) highest paid individuals are as follows:

	2009 HK$'000	2008 HK$'000
Salaries, other allowance and other benefits	**4,276**	3,711
Contribution to pension scheme	**297**	387
	4,573	4,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

16. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals (continued)

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.

Their emoluments were within the following bands:

	2009 No. of individuals	2008 No. of individuals
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**2**	2
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. PROPERTY, PLANT AND EQUIPMENT

The Group	Land and buildings *(Note (a))* HK$'000	Leasehold improvements HK$'000	Machinery, furniture and equipment *(Note (b))* HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2008	80,252	14,987	99,092	5,445	39,057	238,833
Additions	3,430	5,382	6,629	–	1,780	17,221
Disposals	–	(19)	–	(147)	–	(166)
Transfers	18,548	7,421	7,170	–	(33,139)	–
Surplus on revaluation	7,354	–	–	–	–	7,354
Translation adjustments	4,655	499	2,148	290	2,039	9,631
At 31 December 2008	114,239	28,270	115,039	5,588	9,737	272,873
Comprising:						
At cost	–	28,270	115,039	5,588	9,737	158,634
At Valuation 2008	114,239	–	–	–	–	114,239
At 31 December 2008 and 1 January 2009	**114,239**	**28,270**	**115,039**	**5,588**	**9,737**	**272,873**
Reclassification	**(2,929)**	**(1,152)**	**6,378**	**(2,397)**	**(9,345)**	**(9,445)**
Additions	**–**	**2,320**	**2,505**	**219**	**12,680**	**17,724**
Disposals	**–**	**–**	**(1,177)**	**(309)**	**–**	**(1,486)**
Surplus on revaluation	**(3,177)**	**–**	**–**	**–**	**–**	**(3,177)**
Transfer to investment properties *(Note 19)*	**(7,925)**	**–**	**–**	**–**	**–**	**(7,925)**
Translation adjustments	**57**	**318**	**2,174**	**21**	**13**	**2,583**
At 31 December 2009	**100,265**	**29,756**	**124,919**	**3,122**	**13,085**	**271,147**
Comprising:						
At cost	**–**	**29,756**	**124,919**	**3,122**	**13,085**	**170,882**
At Valuation 2009	**100,265**	**–**	**–**	**–**	**–**	**100,265**
	100,265	**29,756**	**124,919**	**3,122**	**13,085**	**271,147**
Accumulated depreciation						
At 1 January 2008	6,101	11,256	51,580	2,749	–	71,686
Charge for the year	4,242	3,942	10,391	669	–	19,244
Eliminated on disposals	–	(2)	–	(51)	–	(53)
Eliminated on revaluation	(10,833)	–	–	–	–	(10,833)
Translation adjustments	490	660	(47)	179	–	1,282
At 31 December 2008 and 1 January 2009	**–**	**15,856**	**61,924**	**3,546**	**–**	**81,326**
Reclassification	**–**	**(8,698)**	**1,173**	**(1,920)**	**–**	**(9,445)**
Charge for the year	**4,380**	**3,295**	**9,803**	**458**	**–**	**17,936**
Eliminated on disposals	**–**	**–**	**(580)**	**(278)**	**–**	**(858)**
Eliminated on revaluation	**(4,384)**	**–**	**–**	**–**	**–**	**(4,384)**
Translation adjustments	**4**	**118**	**1,886**	**3**	**–**	**2,011**
At 31 December 2009	**–**	**10,571**	**74,206**	**1,809**	**–**	**86,586**
Carrying values						
At 31 December 2009	**100,265**	**19,185**	**50,713**	**1,313**	**13,085**	**184,561**
At 31 December 2008	114,239	12,414	53,115	2,042	9,737	191,547
At 1 January 2008	74,151	3,731	47,512	2,696	39,057	167,147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) Bank borrowings are secured by land and buildings with the carrying amount of approximately HK$100,265,000 (2008: HK$114,239,000) (Note 31).

Had the revalued land and buildings been measured on a historical cost basis, carrying values would have been HK$81,803,000 (2008: HK$89,043,000).

The Group's interests in land and building situated in Hong Kong amounting to HK$6,620,000 (2008: HK$5,600,000) are held under medium-term lease.

The revaluation of the Group's land and buildings as at 31 December 2009 and 2008 has been arrived at on the basis of valuations carried out on that date by, Malcolm & Associates Appraisal Limited, an independent qualified valuer not connected with the Group. Malcolm & Associates Appraisal Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience. A revaluation increase of HK$1,207,000 (2008: HK$18,187,000) was recognised in relation to the land and buildings. The valuation has been valued by the depreciated 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.

(b) The carrying amounts of machinery, furniture and equipment includes an amount approximately HK$241,000 (2007: HK$279,000) in respect of assets held under finance leases (Note 30).

The Company

	Office equipment HK$'000
Cost	
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Addition	5
At 31 December 2009	5
Accumulated depreciation	
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Charge for the year	1
At 31 December 2009	1
Carrying values	
At 31 December 2009	4
At 31 December 2008	–
At 1 January 2008	–

18. INTERESTS IN SUBSIDIARIES

	2009 HK$'000	2008 HK$'000
Unlisted equity investments, at cost	**16,204**	16,204

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries at 31 December 2009, 2008 and 1 January 2008 are as follows:

Name of subsidiary	Place of incorporation /operation	Class of share held	Issued/paid up share capital	Proportion ownership interest held by the Company directly	Proportion ownership interest held by the Company Indirectly	Principal activities
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 *(Note)*	PRC	Registered capital	USD5,000,000	–	51%	Manufacture and sales of loudspeaker systems for automobiles
Sonavox Acoustics *(Note)*	PRC	Registered capital	USD2,500,000	–	51%	Manufacture and sales of loudspeaker systems for home theatres
Shangsheng Technology *(Note)*	PRC	Registered capital	USD5,130,000 (2008: USD5,123,885)	–	51%	Manufacture and sales of loudspeaker systems
Suzhou Hesheng *(Note)*	PRC	Registered capital	USD1,186,889 (2008: USD1,115,700)	–	51%	Manufacture and sales of parts for loudspeaker systems
Detroit Sonavox Inc.	United States of America	Ordinary	USD1	–	51%	Provision of after-sales services
Sonavox Europe GmbH	Germany	Ordinary	EUR25,000	–	51%	Provision of after-sales services

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Note:

These entities are registered as sino-foreign equity joint ventures under the PRC law. The English translation of these names is for reference only. The official names of these entities are in Chinese.

19. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Transfer from property, plant and equipment *(Note 17)*	7,925
Translation adjustments	8
At 31 December 2009	7,933

The Group's investment properties were revalued at 31 December 2009 on market value basis by Malcolm & Associates Appraisal Limited as disclosed in Note 17. There was no significant change in fair value of investment properties from the date of transfer to the end of reporting period.

Bank borrowings are secured by investment properties with carrying amount of approximately HK$7,933,000 (2008: HK$Nil) (Note 31).

20. PREPAID LEASE PAYMENTS

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

	At 31 December		**At 1 January**
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Leasehold land in the PRC, held under medium-term lease	**15,956**	16,326	12,649

Bank borrowings are secured by land use rights with the carrying amounts of approximately HK$12,760,000 (2008: HK$13,198,000) (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. DEFERRED TAX

For the purposes of presentation for the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Deferred tax assets	**7,251**	6,294	11,700
Deferred tax liabilities	**(2,622)**	(2,504)	(1,892)
Deferred tax assets/(liabilities), net	**4,629**	3,790	9,808

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets/(liabilities)

	Accelerated depreciation allowance	**Provisions and impairment losses**	**Revaluation of buildings**	**Tax losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	2,874	1,573	(1,892)	7,253	9,808
Effect of change in tax rate	(402)	(116)	631	–	113
Credited/(charged) to profit or loss	456	5,253	–	(6,250)	(541)
Charged to equity	–	–	(4,219)	–	(4,219)
Translation adjustments	97	(856)	–	(612)	(1,371)
At 31 December 2008 and 1 January 2009	3,025	5,854	(5,480)	391	3,790
Credited to profit or loss	82	–	–	–	82
Charged to equity	–	–	(199)	–	(199)
Translation adjustments	2	891	(3)	66	956
At 31 December 2009	3,109	6,745	(5,682)	457	4,629

Under the EIT law effective from 1 January 2008, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries. At the end of reporting period, deferred tax has not been provided for in the consolidated financial statements in respect of taxable temporary differences attributable to the profits earned by the PRC subsidiaries amounting to HK$36,658,000 (2008: HK$605,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences totalling approximately HK$27,177,000 (2008: HK$16,322,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences for both of the year ended 31 December 2009 and 2008 due to the unpredictability of future profit streams. Losses amounting to approximately HK$23,604,000 (2008: HK$14,389,000) will expire during 2011 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

22. INTANGIBLE ASSETS

	Trademark and patents HK$'000
Cost	
At 1 January 2008	24,442
Translation adjustments	(4,760)
At 31 December 2008 and 1 January 2009	19,682
Translation adjustments	3,257
At 31 December 2009	22,939
Accumulated amortisation	
At 1 January 2008	2,910
Charge for the year	1,521
Translation adjustments	(495)
At 31 December 2008 and 1 January 2009	3,936
Charge for the year	1,412
Translation adjustments	770
At 31 December 2009	6,118
Carrying values	
At 31 December 2009	16,821
At 31 December 2008	15,746
At 31 January 2008	21,532

The trademark and patents was purchased as part of a business combination in 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. GOODWILL

	HK$'000
Cost	
At 1 January 2008	6,316
Translation adjustments	(1,350)
At 31 December 2008 and 1 January 2009	4,966
Translation adjustments	822
At 31 December 2009	5,788
Accumulated impairment	
At 1 January 2008, 31 December 2008 and 31 December 2009	–
Carrying value	
At 31 December 2009	5,788
At 31 December 2008	4,966
At 31 January 2008	6,316

The goodwill was arising on acquisition of Sonavox Canada Inc ("SCI") on 12 April 2006 and is tested for impairment annually or whenever there is an indication of impairment.

The recoverable amount of SCI has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The cash flows beyond the five-year period are extrapolated using a zero growth rate over the estimated remaining life of the patented technology owned by SCI. The management considered that forecast beyond five-year period is appropriate because the business of SCI from which goodwill arose is largely dependent on the patented technology owned by it. The discount rate applied to cash flow projections is 13% (2008: 5%). The recent economic recession to last in 2009 has been taken into consideration in the forecast of the revenue. 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. INVENTORIES

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Raw materials	**27,040**	24,801	26,388
Work-in-progress	**9,993**	7,903	6,058
Finished goods	**18,491**	24,766	21,284
	55,524	57,470	53,730

Included in the above figures are raw materials of approximately HK$6,300,000 (2008: HK$4,954,000), work-in-progress of approximately HK$1,405,000 (2008: HK$1,108,000) and finished goods of approximately HK$224,000 (2008: HK$306,000) which have been pledged as security for bank borrowings (Note 31).

25. TRADE AND NOTE RECEIVABLES

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
			(Restated)
Trade and note receivables			
– third parties	**155,569**	90,220	118,191
– related parties *(Note 37(c))*	**214**	710	172
	155,783	90,930	118,363
Less: Accumulated impairment losses	**(2,680)**	(2,571)	(3,389)
	153,103	88,359	114,974

The aging analysis of trade and note receivables, net of impairment, prepared based on delivery date is as follows:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
			(Restated)
Within 90 days	**134,584**	77,198	106,920
91 – 180 days	**16,617**	9,334	6,915
181 – 365 days	**1,329**	1,827	1,139
More than 365 days	**573**	–	–
	153,103	88,359	114,974

25. TRADE AND NOTE RECEIVABLES (CONTINUED)

The majority of the Group's sales are on open account in accordance with terms specified in the contracts 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 31 December 2009, an aging analysis of the Group's trade and note receivables, that are past due but not impaired at the end of reporting period are as follows:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
91 – 180 days	**16,617**	9,334	6,915
181 – 365 days	**1,329**	1,827	1,139
More than 365 days	**573**	–	–
	18,519	11,161	8,054

The Group reviews customer credit limit regularly based on historical repayment record. Trade receivables that were neither past due nor impaired relate to a member of independent customers that were a good track record with the Group.

The below table reconciled the impairment loss of trade and note receivables for the year:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
At 1 January	**2,571**	3,389	3,214
Impairment loss recognised	**–**	178	175
Amounts written off as uncollectible	**–**	(996)	–
Translation adjustments	**109**	–	–
At 31 December	**2,680**	2,571	3,389

Included in the allowance for bad and doubtful debts are individually impaired trade receivables of approximately HK$2,680,000 (2008: HK$2,571,000). The Group does not hold any collateral over these balances. At 31 December 2009, the carrying amount of receivables, which have been pledged as security for the bank borrowings, is approximately HK$16,971,000 (2008: HK$13,592,000).

26. AMOUNT DUE FROM/TO MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due from minority shareholder of a subsidiary is unsecured, interest free and repayable on demand.

The amount due to minority shareholder of a subsidiary is unsecured, interest bearing at a rate of 6.831% p.a. and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. 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 Renminbi 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 2.25% (2008: 4% to 4.14%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

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 0.36% (2008: 0.35% to 0.72%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in Renminbi.

28. TRADE AND NOTE PAYABLES

	At 31 December		**At 1 January**
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Trade and note payables			
– third parties	**133,975**	84,887	101,216
– related parties *(Note 37(c))*	**4**	22	22
	133,979	84,909	101,238

In general, the credit terms granted by suppliers ranged from 30 to 90 days. An aging analysis of the Group's trade and note payables is as follows:

	At 31 December		**1 January**
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Within 30 days	**55,831**	21,624	51,944
31 – 90 days	**62,757**	35,716	41,180
91 – 180 days	**14,553**	24,781	7,324
181 – 365 days	**354**	1,667	504
More than 365 days	**484**	1,121	286
	133,979	84,909	101,238

29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. *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 (2008: three years). Effective interest rate underlying the obligations under finance leases is fixed at an average of 8.5% (2008: 8.5%). At the end of reporting period, the amount payable under the finance leases due as follows:

	Minimum lease payments			Present value of minimum lease payments		
	At 31 December		At 1 January	At 31 December		At 1 January
	2009 HK$'000	2008 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	2008 HK$'000
Within one year	**62**	145	369	**59**	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
	62	198	616	**59**	185	557
Less: Future finance charges	**(3)**	(13)	(59)	**–**	–	–
Present value of lease obligations	**59**	185	557	**59**	185	557
Less: Amount due within one year shown under current liabilities				**(59)**	(134)	(326)
Amount due after one year				**–**	51	231

The Group's obligations under finance leases as at 31 December 2009 and 2008 are denominated in CAD. It is secured by the lessor's charge over the leased assets (Note 17).

31. *BANK BORROWINGS*

At the end of reporting period, bank borrowings comprise:

	Group			Company	
	At 31 December		At 1 January	At 31 December	
	2009 HK$'000	2008 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Secured bank borrowings:					
– bank overdrafts *(Note 40)*	**9,622**	4,338	9,269	**–**	–
– short-term bank loans	**83,635**	86,696	66,912	**–**	5,900
– mortgage loan	**2,265**	2,367	2,463	**2,265**	2,367
	95,522	93,401	78,644	**2,265**	8,267

31. BANK BORROWINGS (CONTINUED)

At the end of reporting period, total current and non-current borrowings are repayable as follows:

	Group			Company	
	At 31 December		At 1 January	At 31 December	
	2009	2008	2008	**2009**	2008
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
On demand or within one year	**93,361**	91,136	76,262	**104**	6,002
More than one year, but not exceeding two years	**108**	105	85	**108**	105
More than two years, but not exceeding five years	**338**	216	262	**338**	216
More than five years	**1,715**	1,944	2,035	**1,715**	1,944
	95,522	93,401	78,644	**2,265**	8,267
Less: Amount due within one year shown under current liabilities	**(93,361)**	(91,136)	(76,262)	**(104)**	(6,002)
Amount due after one year	**2,161**	2,265	2,382	**2,161**	2,265

32. DERIVATIVE FINANCIAL INSTRUMENT

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	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 rate**
Buy USA 522,292	23 January 2009	RMB 6.88 = US$1

33. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENT

On 6 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.

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 31 December 2008 and 2009 is set out as follows:

	Liability component HK$'000	**Embedded derivative financial instrument** HK$'000
At 1 January 2008	36,109	6,593
Interest charge *(Note 9)*	4,447	–
Interest paid	(3,100)	–
Translation adjustments	(252)	–
Gain arising on change of fair value	–	(4,448)
At 31 December 2008 and 1 January 2009	37,204	2,145
Interest charge *(Note 9)*	4,654	–
Gain arising on change of fair value	–	5,281
At 31 December 2009	41,858	7,426

During the year, the Company failed to pay interest to the bondholders on time, which constituted an event of default by which the bondholders are entitled to demand immediate settlement of the accrued interest of US$400,000 (equivalent to approximately HK$3,100,000) and outstanding principal of US$5,000,000 (equivalent to approximately HK$38,750,000). A wavier in relation to the event of default was obtained before the end of reporting period and as a result, the terms and conditions of the convertible bonds have remained unchanged.

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For the year ended 31 December 2009

34. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	Nominal value HK$'000
Authorised:		
At 1 January 2008, 31 December 2008 and 31 December 2009	20,000,000,000	200,000
Issued and fully paid:		
At 1 January 2008, 31 December 2008 and 31 December 2009	325,089,974	3,251

35. RESERVES

The Group

	Share premium HK$'000	Property revaluation reserve HK$'000	Statutory reserves HK$'000	Share-based payment reserve HK$'000	Merger reserve HK$'000	Cumulative translation adjustment reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2008 (Previously reported)	27,682	2,598	7,250	1,948	2,441	15,235	27,735	84,889
Restatement of prior periods and opening balances *(Note 3)*	–	–	–	–	–	164	3,962	4,126
At 1 January 2008 (Restated)	27,682	2,598	7,250	1,948	2,441	15,399	31,697	89,015
Total comprehensive income for the year (Restated)	–	8,074	–	–	–	(5,334)	(14,420)	(11,680)
Cancellation of share options previously granted	–	–	–	(325)	–	–	325	–
At 31 December 2008 (Restated)	27,682	10,672	7,250	1,623	2,441	10,065	17,602	77,335
At 1 January 2009 (Previously reported)	27,682	10,672	7,250	1,623	2,441	15,467	18,679	83,814
Restatement of prior periods and opening balances *(Note 3)*	–	–	–	–	–	(5,402)	(1,077)	(6,479)
At 1 January 2009 (Restated)	27,682	10,672	7,250	1,623	2,441	10,065	17,602	77,335
Total comprehensive income for the year	–	1,008	–	–	–	4,114	(3,213)	1,909
Release of reserve	–	–	(438)	–	–	–	438	–
At 31 December 2009	27,682	11,680	6,812	1,623	2,441	14,179	14,827	79,244

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35. RESERVES (CONTINUED)

The Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Merger reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2008	27,682	1,948	19,550	83	49,263
Total comprehensive income for the year, net of tax	–	–	–	(2,893)	(2,893)
Cancellation of share options previously granted	–	(325)	–	–	(325)
At 31 December 2008 and 1 January 2009	27,682	1,623	19,550	(2,810)	46,045
Total comprehensive income for the year, net of tax	–	–	–	(12,778)	(12,778)
At 31 December 2009	27,682	1,623	19,550	(15,588)	33,267

36. COMMITMENTS

(a) Capital commitment

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**10,284**	134	15,639

(b) Operating leases

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Within the first year	**1,217**	1,128	1,043
In the second to the fifth year inclusive	**1,437**	2,450	3,741
	2,654	3,578	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.

The Group as lessor

During the year, the Group reclassified certain buildings from property, plant and equipment (Note 17) to investment properties (Note 19). The properties have been leased to tenants for an average of 5 years. At the end of reporting period, the minimum rental receivables under non-cancellable operating leases are follows:

	At 31 December		At 1 January
	2009	2008	2008
	HK$'000	HK$'000	HK$'000
Within the first year	**910**	–	–
In the second to the fifth year inclusive	**2,882**	–	–
	3,792	–	–

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For the year ended 31 December 2009

37. *RELATED PARTY TRANSACTIONS*

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

(a) Sales and purchases

	2009 HK$'000	2008 HK$'000
Sonavox Electronics (Suzhou Industrial Park) Company Limited ("SSIP") *(Note (i))* – Sales of goods *(Note (ii))*	**141**	582

(b) Key management personnel compensation

	2009 HK$'000	2008 HK$'000
Salaries and other short-term employee benefits	**4,898**	4,448

(c) Amounts due from related parties

	At 31 December		**At 1 January**
	2009 HK$'000	2008 HK$'000	2008 HK$'000
Trade receivables from Asian Elite International Company Limited (i) *(Note 25)*	**184**	184	172
Trade receivables due from Sonavox Electronics Suzhou Industrial Park Company Limited (i) *(Note 25)*	**30**	526	–
Amount due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, minority shareholder of a subsidiary *(Note 26)*	**2,827**	3,500	246
Trade payables to Sonavox Electronics Inc. (i) *(Note 28)*	**4**	4	4
Trade payables to Asian Elite International Company Limited (i) *(Note 28)*	**–**	18	18

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37. *RELATED PARTY TRANSACTIONS (CONTINUED)*

Notes:

(i) Mr. Yang Tsu Ying and Mr. Yang Ching Yau, the directors of the Company, have control over SSIP and in their opinion, the above transactions with related companies are carried out in the ordinary course of business on terms as agreed with the related parties.

(ii) The transaction constituted connected transactions as defined under Chapter 20 "Connected Transactions" of the GEM Listing Rules but is exempted from reporting, announcement and independent shareholders' approval requirements contained in Chapter 20.

(iii) On 5 November 2009, Shangsheng Technology and Shangsheng Electrics entered into agreements with SSIP to acquire machinery from SSIP with an aggregate cash consideration of approximately RMB3,553,000 (approximately HK$4,040,000). At 31 December 2009, an prepayment of approximately RMB2,053,000 (approximately HK$2,335,000) was paid to SSIP and the transaction is expected to complete within 2010. This transaction constitutes a connected transaction under the GEM Listing Rules and is subject to reporting and announcement requirements under Chapter 20. The details of the transaction are included in the announcement of the Company dated 5 November 2009.

38. *SHARE-BASED COMPENSATION*

The Group adopted a share option scheme which became effective on 8 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.

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 31 December 2009, 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 (2008: 10,000,000), representing 3.1% (2008: 3.1%) 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.

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For the year ended 31 December 2009

38. SHARE-BASED COMPENSATION (CONTINUED)

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

	2009				2008			
	Weighted average exercise price HK$	Number of option Directors '000	Employees '000	Total '000	Weighted average exercise price HK$	Number of option Directors '000	Employees '000	Total '000
Outstanding at the beginning of the year	**0.345**	**4,000**	**6,000**	**10,000**	0.345	4,000	8,000	12,000
Cancelled during the year	**0.345**	**–**	**–**	**–**	0.345	–	(2,000)	(2,000)
Outstanding at the end of the year	**0.345**	**4,000**	**6,000**	**10,000**	0.345	4,000	6,000	10,000
Exercisable at the end of the year	**0.345**	**4,000**	**6,000**	**10,000**	0.345	4,000	6,000	10,000

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

No share options have been granted to the directors and employees during the years ended 31 December 2009 and 2008.

39. 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 entity 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$28,000 (2008: HK$30,000).

As stipulated by the rules and regulations in Mainland China, group entities in the PRC contribute 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 31 December 2009, the aggregate amount of the Group's employer contributions was approximately HK$6,228,000 (2008: HK$6,863,000). 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 2009, the prescribed contribution rate is 4.95% (2008: 4.95%) of a salaried worker's employment income between approximately HK$24,000 and HK$316,000 (2008: HK$33,000 and HK$330,000). The total amount contributed by SCI to CPP during the year ended 31 December 2009 was approximately HK$318,000 (2008: HK$493,000).

40. 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 owners 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 entities has subjected to an externally capital requirements from a banker for banking facilities granted. As at 31 December 2009, the subsidiary has a bank overdraft with carrying amount of approximately HK$9,622,000 (2008: HK$ 4,338,000) (Note 31). 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 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 and there are adequate alternative sources of finance for the subsidiary's on-going operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

41. *FINANCIAL RISK MANAGEMENT*

(a) Financial risk management objectives and policies

The Group's major financial instruments include convertible bonds, trade and note receivables, other receivables, amount due from minority shareholder of a subsidiary, pledged bank deposits, cash and bank balances, trade and note payables, accruals and other payables, obligations under finance leases, bank borrowings, convertible bonds, derivative financial instrument and embedded derivative financial instrument. Details of these 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

Foreign exchange risk arises when group entities enter into transactions denominated in a currency other than their functional currency. The Group's monetary assets and liabilities are mainly denominated in Renminbi, Hong Kong dollars, US dollars, Canadian dollars and Euro. The exchanges rates among these currencies are not pegged except US dollars and HK dollars, and there is fluctuation of exchange rates among these currencies.

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.

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

The Group

	Assets			**Liabilities**		
	At 31 December		**At 1 January**	**At 31 December**		**At 1 January**
	2009 HK$'000	2008 HK$'000 (Restated)	2008 HK$'000 (Restated)	**2009 HK$'000**	2008 HK$'000	2008 HK$'000 (Restated)
US dollars	**45,212**	34,261	40,997	**58,897**	56,708	19,567
Euro	**15,932**	5,387	6,251	**233**	–	76
	61,144	39,648	47,248	**59,130**	56,708	19,643

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

– Currency risk (Continued)

The Company

	Assets		Liabilities	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
US dollars	**168**	1,223	**41,858**	40,304

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates an increase in profit where the Hong Kong dollars strengthens against the relevant currency. For a weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2009		2008 (Restated)	
	Increase in foreign exchange rate %	**Effect on profit or loss after income tax expense HK$'000**	Increase in foreign exchange rate %	Effect on profit or loss after income tax expense HK$'000
US dollars	**5%**	**(571)**	5%	(578)
Euro	**5%**	**655**	5%	269
Canadian dollars	**5%**	**–**	5%	336

– Interest rate risk

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group is exposed to interest rate risk as group entities may borrow funds at both fixed interest rates and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings. Although the board of directors accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

– Interest rate risk (Continued)

The following table details interest rates analysis that the management of the Group evaluates their interest rate risk.

The Group

	2009		2008	
	Effective interest rate %	Carrying amount HK$'000	Effective interest rate %	Carrying amount HK$'000
Floating rate borrowings				
– bank overdraft	3.7%	9,622	6.0%	4,338
– short-term bank loans	6.1%	83,635	8.9%	86,696
– mortgage loans	2.5%	2,265	2%	2,367
– obligations under finance leases	8.5%	59	8.5%	185
– convertible bonds	12.9%	41,858	12.9%	37,204

The Company

	2009		2008	
	Effective interest rate %	Carrying amount HK$'000	Effective interest rate %	Carrying amount HK$'000
Floating rate borrowings				
– short-term bank loans	–	–	2.2%	5,900
– mortgage loans	2.5%	2,265	2%	2,367
– convertible bonds	12.9%	41,858	12.9%	37,204

Sensitivity analysis

The following table indicates the approximate change in the profit after income tax expense in response to reasonably possible changes in an interest rate to which the Group has significant exposure at the end of reporting period. In determining the effect on profit after income tax expense on the next accounting period, the management assumes that the change in interest rate had occurred at the end of reporting period and all other variables remain constant. There is no change in the methods and assumptions used in 2008 and 2009.

	2009 Effect on profit after income tax expense HK$'000	2008 Effect on profit after income tax expense HK$'000
– increase by 200 basis points	(1,596)	(1,562)
– decrease by 200 basis points	1,596	1,562

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (Continued)

(ii) Credit risk

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 statement of financial position.

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 recoverable amount of each individual trade debt at the end of each reporting period 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 no significant concentration of 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. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position of the Group and the Company after deducting any impairment allowance. Except for the financial guarantees given by the Company as set out in note 42, the Group and the Company do not provide any other guarantee, which would expose the Group or the Company to credit risk.

(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 31 December 2009, the Group has available unutilised short-term banking facilities of approximately HK$9,806,000 (2008: HK$18,868,000). As at 31 December 2009, the Company has issued guarantee to a bank in respect of granting or giving credit facilities amounting to CAD1,675,000 (2008: CAD1,675,000) (approximately HK$12,382,000 (2008: approximately HK$10,624,000) to a wholly-owned subsidiary.

The Group is exposed to liquidity risk as the Group recorded net current liabilities of approximately HK$2,931,000 (2008 (restated): HK$29,355,000) as at the end of reporting period. 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 cash flows will be generated from the Group's businesses based on the financial budget forecast approved by senior management covering five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) 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.

At 31 December 2009	**Weighted average interest rate**	**Within 1 year HK$'000**	**More than 1 year but less than 5 years HK$'000**	**More than 5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount HK$'000**
Non-derivative financial liabilities						
Trade and note payables	–	133,979	–	–	133,979	133,979
Accruals and other payables	–	42,683	–	–	42,683	42,683
Bank overdrafts and short-term bank loans	5.34%	94,271	–	–	94,271	93,257
Long-terms bank loans at variable rate	2.25%	160	640	1,999	2,799	2,265
Obligations under finance leases	8.5%	62	–	–	62	59
Convertible bonds	12.9%	3,120	42,120	–	45,240	41,858
Amount due to ultimate holding company	–	13,353	–	–	13,353	13,353
Amount due to minority shareholder of Mainland China subsidiaries	6.831%	12,153	–	–	12,153	11,376
		299,781	42,760	1,999	344,540	338,830

At 31 December 2008	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Trade and note payables	–	84,909	–	–	84,909	84,909
Accruals and other payables	–	31,398	–	–	31,398	31,398
Bank overdrafts and short-term bank loans	7.00%	93,872	–	–	93,872	91,034
Long-terms 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
		219,208	43,625	2,159	264,992	252,701
Derivatives – net settlement						
Derivative financial instrument		27	–	–	27	27

41. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk (Continued)

The Company

At 31 December 2009	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Accruals and other payables	–	641	–	–	641	641
Long-terms bank loans at variable rate	2.25%	160	640	1,999	2,799	2,265
Convertible bonds	12.9%	3,120	42,120	–	45,240	41,858
Amount due to ultimate holding company	–	13,353	–	–	13,353	13,353
Financial guarantee contract	–	12,382	–	–	12,382	–
		29,656	42,760	1,999	74,415	58,117

At 31 December 2008	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Accruals and other payables	–	625	–	–	625	625
Short-term bank loans	5.34%	5,920	–	–	5,920	5,900
Long-terms bank loans at variable rate	3%	160	640	2,159	2,959	2,367
Convertible bonds	12.9%	3,120	42,932	–	46,052	37,204
Amount due to ultimate holding company	–	5,604	–	–	5,604	5,604
Financial guarantee contract	–	10,624	–	–	10,624	–
		26,053	43,572	2,159	71,784	51,700

(b) Fair value

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

As at 31 December 2009, the Group's embedded derivative financial instrument (Note 33) is measured at fair value, which is determined by valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly (i.e Level 2 fair value hierarchy as defined by HKFRS 7).

42. CONTINGENT LIABILITIES

As 31 December 2009, the Company has issued guarantee to a bank in respect of granting or giving credit facilities to a wholly-owned subsidiary. Under the guarantee, the Company is liable to the amount due from the subsidiary to this bank in the event of any default and its liability share at no time exceed the sum stated on the letters of guarantee.

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured and its transaction price was HK$ Nil.

43. NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent the balance sheet date, one of the Company's subsidiaries has received an advance from a related party, for an amount of USD500,000 (approximately HK$3,900,000) for its operation. The amount is unsecured, interest-free and repayable on demand.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2010.