



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8226)

For the six months ended 30 June 2010 Interim Report 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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: (1) believe the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement in this report misleading.

The board of directors (the “Board”) of Sonavox International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2010, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2010

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|--|-------|------------------------------------|------------------|----------------------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Turnover | 4 | 167,477 | 99,591 | 302,480 | 166,797 |
| Cost of sales | | (126,559) | (79,569) | (229,608) | (134,426) |
| Gross profit | | 40,918 | 20,022 | 72,872 | 32,371 |
| Other revenue, gains and losses | | (201) | 436 | 258 | 792 |
| Selling and marketing costs | | (4,229) | (2,520) | (8,454) | (4,593) |
| Administrative expenses | | (30,443) | (14,777) | (47,123) | (27,874) |
| Finance costs | | (2,764) | (2,440) | (5,142) | (4,910) |
| Profit/(loss) before income tax expense | 5 | 3,281 | 721 | 12,411 | (4,214) |
| Income tax expense | 6 | (1,036) | – | (3,180) | – |
| Profit/(loss) for the period | | 2,245 | 721 | 9,231 | (4,214) |
| Other comprehensive income: | | | | | |
| – exchange differences on translating foreign operations | | 648 | 3,412 | 1,741 | 2,455 |
| – Recognition of statutory reserves | | – | (47) | – | (47) |
| Other comprehensive income for the period, net of tax | | 648 | 3,365 | 1,741 | 2,408 |
| Total comprehensive income for the period | | 2,893 | 4,086 | 10,972 | (1,806) |
| Profit/(loss) attributable to: | | | | | |
| – owners of the Company | | (1,025) | (1,475) | 952 | (6,023) |
| – non-controlling interests | | 3,270 | 2,196 | 8,279 | 1,809 |
| | | 2,245 | 721 | 9,231 | (4,214) |

| | <i>Notes</i> | For the three months ended 30 June | | For the six months ended 30 June | |
|--|--------------|---|-----------------|---|-----------------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total comprehensive income attributable to: | | | | | |
| – owners of the Company | | (1,213) | (2,757) | 2,011 | (8,262) |
| – non-controlling interests | | 4,106 | 6,843 | 8,961 | 6,456 |
| | | <u>2,893</u> | <u>4,086</u> | <u>10,972</u> | <u>(1,806)</u> |
| Earnings/(losses) per share (HK cent) | | | | | |
| – basic | 7 | <u>(0.32)</u> | <u>(0.45)</u> | <u>0.29</u> | <u>(1.85)</u> |
| – diluted | 7 | <u>(0.24)</u> | <u>(0.45)</u> | <u>0.22</u> | <u>(1.85)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

For the six months ended 30 June 2010

| | | As at | |
|---|-------|-----------------|---------------------|
| | | 30 June 2010 | 31 December 2009 |
| | Notes | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 185,183 | 184,561 |
| Investment properties | | 7,997 | 7,933 |
| Land use rights | 10 | 15,893 | 15,956 |
| Deferred tax assets | | 7,289 | 7,251 |
| Intangible assets | 11 | 16,134 | 16,821 |
| Goodwill | | 5,816 | 5,788 |
| | | <u>238,312</u> | <u>238,310</u> |
| Current assets | | | |
| Inventories | 12 | 77,580 | 55,524 |
| Trade and note receivables | 13 | 198,599 | 153,103 |
| Prepayments, deposits and other receivables | | 27,148 | 19,508 |
| Amount due from non-controlling shareholder of a subsidiary | | – | 2,827 |
| Pledged bank deposits | | 10,710 | 15,766 |
| Cash and cash equivalents | | 30,246 | 49,028 |
| | | <u>344,283</u> | <u>295,756</u> |
| Total current assets | | <u>344,283</u> | <u>295,756</u> |
| Total assets | | <u>582,595</u> | <u>534,066</u> |
| Current liabilities | | | |
| Trade and note payables | 14 | 172,399 | 133,979 |
| Accruals and other payables | | 44,380 | 42,683 |
| Amount due to ultimate holding company | | 17,753 | 13,353 |
| Amount due to non-controlling shareholders of subsidiaries | | 14,559 | 11,376 |
| Obligation under finance leases | | | |
| – due within one year | | 20 | 59 |
| Bank borrowings – due within one year | 15 | 91,256 | 93,361 |
| Current tax liabilities | | 2,481 | 3,876 |
| Embedded derivative financial instrument | | 7,426 | – |
| Convertible bonds | | 41,197 | – |
| | | <u>391,471</u> | <u>298,687</u> |
| Total current liabilities | | <u>391,471</u> | <u>298,687</u> |
| Net current liabilities | | <u>(47,188)</u> | <u>(2,931)</u> |
| Total assets less current liabilities | | <u>191,124</u> | <u>235,379</u> |

| | | As at | |
|---|--------------|-----------------|---------------------|
| | | 30 June 2010 | 31 December 2009 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 2,640 | 2,622 |
| Bank borrowings – due after one year | 15 | 2,107 | 2,161 |
| Embedded derivative financial instrument | | – | 7,426 |
| Convertible bonds | | – | 41,858 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 4,747 | 54,067 |
| | | <hr/> | <hr/> |
| TOTAL NET ASSETS | | 186,377 | 181,312 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 16 | 3,251 | 3,251 |
| Reserves | | 81,255 | 79,244 |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 84,506 | 82,495 |
| Non-controlling interests | | 101,871 | 98,817 |
| | | <hr/> | <hr/> |
| TOTAL EQUITY | | 186,377 | 181,312 |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010

| | 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 | Non-controlling 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 2009 | 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 period | - | - | - | 411 | - | - | (2,650) | (6,023) | (8,262) | 6,456 | (1,806) |
| Transfer to statutory reserves | - | - | - | 150 | - | - | - | (150) | - | - | - |
| At 30 June 2009 | <u>3,251</u> | <u>27,682</u> | <u>10,672</u> | <u>7,811</u> | <u>1,623</u> | <u>2,441</u> | <u>7,415</u> | <u>11,429</u> | <u>72,324</u> | <u>87,225</u> | <u>159,549</u> |
| At 1 January 2010 | 3,251 | 27,682 | 11,680 | 6,812 | 1,623 | 2,441 | 14,179 | 14,827 | 82,495 | 98,817 | 181,312 |
| Total comprehensive income for the period | - | - | - | - | - | - | 1,059 | 952 | 2,011 | 8,961 | 10,972 |
| Proposed dividend | - | - | - | - | - | - | - | - | - | (5,907) | (5,907) |
| At 30 June 2010 | <u>3,251</u> | <u>27,682</u> | <u>11,680</u> | <u>6,812</u> | <u>1,623</u> | <u>2,441</u> | <u>15,238</u> | <u>15,779</u> | <u>84,506</u> | <u>101,871</u> | <u>186,377</u> |

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

For the six months ended 30 June 2010

| | For the six months ended 30 June | |
|--|-------------------------------------|----------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Net cash (used in)/from operating activities | (10,942) | 12,096 |
| Net cash used in investing activities | (1,516) | (5,222) |
| Net cash from financing activities | <u>43</u> | <u>5,642</u> |
| Net (decrease)/increase in cash and cash equivalents | (12,415) | 12,516 |
| Cash and cash equivalent at beginning of period | 39,406 | 8,422 |
| Effect of exchange rate changes on cash and cash equivalents | <u>(5,906)</u> | <u>987</u> |
| Cash and cash equivalents at end of period | <u><u>21,085</u></u> | <u><u>21,925</u></u> |
| Analysis of the balances of cash and cash equivalents: | | |
| Cash and bank balances | 30,246 | 28,613 |
| Bank overdrafts | <u>(9,161)</u> | <u>(6,688)</u> |
| Cash and cash equivalents at end of period | <u><u>21,085</u></u> | <u><u>21,925</u></u> |

Notes:

1. GENERAL INFORMATION

The principal activities of 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 directors regard Newwood 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 (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 19 July 2002.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“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 GEM of the Stock Exchange.

The financial statements have been prepared under the historical cost basis except for land and buildings and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and method of computation used in preparing the financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2009 except as described below.

The Group has adopted certain new/revised HKFRSs issued by the HKICPA that are effective for the current accounting period. The adoption of the 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.

The Group has not early adopted the new/revised HKFRS, potentially relevant to the Group’s operations, that have been issued but are yet effective.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. 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 America. 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.

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 for the six months ended 30 June 2010 is as follows:

2010

| | Mainland China | North America | Segments total | Reconciliation (Note (c)) | Consolidated |
|--|-------------------|------------------|-------------------|------------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers (Note (a)) | 255,917 | 46,563 | 302,480 | - | 302,480 |
| Reportable segment profit/(loss) (Note (b)(i)) | 20,076 | (3,611) | 16,465 | (4,054) | 12,411 |
| Depreciation and amortisation | 9,665 | 1,467 | 11,132 | 130 | 11,262 |
| Interest income | 141 | - | 141 | - | 141 |
| Interest expense | 2,405 | 2,709 | 5,114 | 28 | 5,142 |
| Income tax expense | 3,180 | - | 3,180 | - | 3,180 |
| Segment assets (Note (b)(ii)) | 504,568 | 71,264 | 575,832 | 6,763 | 582,595 |
| Segment liabilities (Note (b)(iii)) | (289,572) | (83,375) | (372,947) | (23,271) | (396,218) |
| Addition to non-current assets: - property, plant and equipment | 9,593 | 4 | 9,597 | - | 9,597 |

2009

| | Mainland China | North America | Segments total | Reconciliation (Note (c)) | Consolidated |
|--|-------------------|------------------|-------------------|------------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers (Note (a)) | 143,465 | 23,332 | 166,797 | - | 166,797 |
| Reportable segment profit/(loss) (Note (b)(i)) | 3,693 | (6,230) | (2,537) | (1,677) | (4,214) |
| Depreciation and amortisation | 8,587 | 1,283 | 9,870 | 108 | 9,978 |
| Interest income | 355 | - | 355 | 19 | 374 |
| Interest expense | 2,400 | 2,461 | 4,861 | 49 | 4,910 |
| Income tax expense | - | - | - | - | - |
| 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 | 5,630 | 24 | 5,654 | 5 | 5,659 |

Notes:

- (a) Revenue of approximately HK\$59,833,000 (2009: HK\$34,398,000) 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, asset and liabilities, respectively, are as follows:
- (i) Staff cost incurred in maintaining operation of corporate level of the Group
 - (ii) Corporate assets of land and building situated in Hong Kong
 - (iii) Bank borrowings at corporate level of the Group
- (c) Reconciliation represents unallocated corporate income and expenses, assets and liabilities as follows:

| | For the six months ended | |
|---|---------------------------------|-----------------|
| | 30 June | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Reportable segment profit/(loss) | 16,465 | (2,537) |
| Depreciation and amortisation | (130) | (108) |
| Directors' emoluments | (307) | (307) |
| Others | (3,617) | (1,262) |
| | <hr/> | <hr/> |
| Profit/(loss) before income tax expense | 12,411 | (4,214) |
| | <hr/> <hr/> | <hr/> <hr/> |
| | 30 June | 31 December |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Assets | | |
| Reportable segment assets | 575,832 | 526,259 |
| Unallocated corporate assets | 6,763 | 7,807 |
| | <hr/> | <hr/> |
| Consolidated total assets | 582,595 | 534,066 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities | | |
| Reportable segment liabilities | 372,947 | 336,020 |
| Unallocated corporate liabilities | 23,271 | 16,734 |
| | <hr/> | <hr/> |
| Consolidated total liabilities | 396,218 | 352,754 |
| | <hr/> <hr/> | <hr/> <hr/> |

4. TURNOVER

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

5. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

| | For the six months ended 30 June | |
|---|---|----------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 10,293 | 9,121 |
| Amortisation of intangible assets | 778 | 667 |
| Amortisation of land use rights | 191 | 190 |
| | <u>11,262</u> | <u>10,078</u> |

6. 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 six months ended 30 June 2010 and 2009.

The PRC Enterprise Income Tax ("EIT") rate for foreign-invested enterprises is 25%.

Suzhou Shangsheng Electrics Co., Ltd. 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. and Suzhou Hesheng Industries Co., Ltd. ("Suzhou Hesheng") are entitled to a 50% reduction on EIT for three consecutive three years from 1 January 2010 in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

No EIT is payable for Suzhou Hesheng and Suzhou Sonavox Acoustics Co., Ltd. since they were having tax loss for the period.

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

The amount of taxation for the period to the condensed consolidated statement of comprehensive income represents:

| | 2010 | 2009 |
|-----------------------------|---------------------|-----------------|
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| – PRC Enterprise Income Tax | 3,180 | – |
| Deferred tax | – | – |
| Income tax expense | <u>3,180</u> | <u>–</u> |

7. EARNINGS/LOSSES PER SHARE

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

For the three months ended 30 June 2010:

| | 2010 | | 2009 | |
|---|----------------|----------------|----------------|----------------|
| | Basic | Diluted | Basic | Diluted |
| Profit/(loss) attributable to owners of the Company (HK\$'000) | <u>(1,025)</u> | <u>(1,025)</u> | <u>(1,475)</u> | <u>(1,475)</u> |
| Weighted average number of ordinary shares, in thousand, for the purpose of earnings/losses per share | <u>325,090</u> | <u>432,068</u> | <u>325,090</u> | <u>325,090</u> |
| Earnings/(losses) per share (HK cent) | <u>(0.32)</u> | <u>(0.24)</u> | <u>(0.45)</u> | <u>(0.45)</u> |

For the six months ended 30 June 2010:

| | 2010 | | 2009 | |
|---|----------------|----------------|----------------|----------------|
| | Basic | Diluted | Basic | Diluted |
| Profit/(loss) attributable to owners of the Company (HK\$'000) | <u>952</u> | <u>952</u> | <u>(6,023)</u> | <u>(6,023)</u> |
| Weighted average number of ordinary shares, in thousand, for the purpose of earnings/losses per share | <u>325,090</u> | <u>432,068</u> | <u>325,090</u> | <u>325,090</u> |
| Earnings/(losses) per share (HK cent) | <u>0.29</u> | <u>0.22</u> | <u>(1.85)</u> | <u>(1.85)</u> |

No dilutive effect for the six months ended 30 June 2009 because the exercise prices of the Company's share options and convertible bonds were higher than the average market price for share during the period.

8. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2010 and 2009.

9. PROPERTY, PLANT AND EQUIPMENT

During the period from 1 January 2010 to 30 June 2010, the Group had additions to property, plant and equipment of approximately HK\$9,597,000 and disposed of property, plant and equipment with net book value of approximately HK\$91,000 for proceeds of about HK\$57,000.

10. LAND USE RIGHTS

Net carrying values of the Group's land use rights are analysed as follows:

| | 30 June 2010 | 31 December 2009 |
|---|-------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Leasehold land outside Hong Kong, held under medium-term leases | <u>15,893</u> | <u>15,956</u> |
| Beginning of period/year | 15,956 | 16,326 |
| Addition | – | – |
| Amortisation for the period/year | (191) | (381) |
| Translation adjustment | 128 | 11 |
| End of period/year | <u>15,893</u> | <u>15,956</u> |

11. INTANGIBLE ASSETS

| | Trademark and patents |
|---------------------------------|----------------------------------|
| | <i>HK\$'000</i> |
| Cost | |
| At 1 January 2010 | 22,939 |
| Translation adjustment | 111 |
| At 30 June 2010 | <u>23,050</u> |
| Accumulated amortisation | |
| At 1 January 2010 | 6,118 |
| Charge for the period | 778 |
| Translation adjustment | 20 |
| At 30 June 2010 | <u>6,916</u> |
| Carrying values | |
| At 30 June 2010 | <u>16,134</u> |
| At 31 December 2009 | <u>16,821</u> |

12. INVENTORIES

| | 30 June 2010 | 31 December 2009 |
|------------------|-------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 37,001 | 27,040 |
| Work-in-progress | 11,256 | 9,993 |
| Finished goods | 29,323 | 18,491 |
| | <u>77,580</u> | <u>55,524</u> |

13. TRADE AND NOTE RECEIVABLES

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

| | 30 June 2010 | 31 December 2009 |
|--------------------|-------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 90 days | 157,924 | 134,584 |
| 91 – 180 days | 21,019 | 16,617 |
| 181 – 365 days | 19,656 | 1,329 |
| More than 365 days | – | 573 |
| | <u>198,599</u> | <u>153,103</u> |

14. TRADE AND NOTE PAYABLES

An aging analysis of the Group's trade and note payables is as follows:

| | 30 June 2010 | 31 December 2009 |
|----------------|-------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 83,061 | 55,831 |
| 31 – 90 days | 64,401 | 62,757 |
| 91 – 180 days | 24,418 | 14,553 |
| 181 – 360 days | 141 | 354 |
| Over 360 days | 378 | 484 |
| | <u>172,399</u> | <u>133,979</u> |

15. BORROWINGS

During the six months ended 30 June 2010, the Group obtained new short-term bank loans in the amount of approximately HK\$46.4 million. The loans bear interest at variable market rates and are repayable within one year. Repayments of short-term bank loans amounting to approximately HK\$46.4 million were made during the period.

16. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.01 each | Nominal Value HK\$'000 |
|--------------------------------------|---|---------------------------------------|
| Authorised: | | |
| At 31 December 2009 and 30 June 2010 | <u>20,000,000,000</u> | <u>200,000</u> |
| Issued and fully paid: | | |
| At 31 December 2009 and 30 June 2010 | <u>325,089,974</u> | <u>3,251</u> |

17. COMMITMENTS**(a) Capital commitment**

| | 30 June 2010 HK\$'000 | 31 December 2009 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | <u>3,485</u> | <u>10,284</u> |

(b) Operating leases

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:

| | 30 June 2010 HK\$'000 | 31 December 2009 HK\$'000 |
|---------------------------------------|--------------------------------------|---------------------------------|
| Within the first year | 1,034 | 1,217 |
| In the second to fifth year inclusive | <u>969</u> | <u>1,437</u> |
| | <u>2,003</u> | <u>2,654</u> |

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.

18. RELATED PARTY TRANSACTIONS

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

(a) Sales and purchases

| | For the six months ended 30 June | |
|--|---|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Sonavox Electronics (Suzhou Industrial Park) Company Limited ("SSIP") (Note (i)) | | |
| – Sales of goods (Note (ii)) | <u>82</u> | <u>136</u> |

(b) Amounts due from related parties

| | 30 June 2010 HK\$'000 | 31 December 2009 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Trade receivables due from Asian Elite International Company Limited (<i>Note (i)</i>) | <u>185</u> | <u>184</u> |
| Trade receivables due from SSIP (<i>Note (i)</i>) | <u>21</u> | <u>30</u> |
| Amount due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, non-controlling shareholder of a subsidiary | <u>-</u> | <u>2,827</u> |
| Trade payables to Sonavox Electronics Inc. (<i>Note (ii)</i>) | <u>4</u> | <u>4</u> |

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.

19. NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent to the reporting period end date, Newwood Consultancy Limited, the ultimate holding company of the Company, sold all its shares of the Company to Fame Global Enterprises Limited, and agreements were entered into in respect of disposals of certain subsidiaries of the Company. The details have been set out in the Company's joint announcement and circulars dated 16 July 2010 and 6 August 2010 respectively.

BUSINESS REVIEW AND PROSPECTS

Business Review

During the period under review, the Group was committed to strengthen its core businesses of manufacture and sales of high performance loudspeaker products to major automakers and consumer electronics companies around the world, such as Ford Motor Company, Volkswagen and Audi. In addition, the Group continued to launch new and competitive multimedia and home theatre products to satisfy our renowned customers' needs.

The Group's performance in 2009 was adversely affected due to amid downturns of US and European markets, and the Group recorded a turnover of HK\$166.8 million for the six months ended 30 June 2009. As a result of economy recovery and rebound of shipments to customers, total turnover of the Group was increased by 81% to approximately HK\$302.4 million during the period under review when compared with that of first half of 2009.

Mainland China remained the most important market of the Group, and the sales of loudspeaker systems in China contributed 43% of the Group's turnover for the six months ended 30 June 2010 (2009: 45%). The Group continued to maintain its leading loudspeaker manufacturer position with well-established business relationships with major industry players, such as Shanghai General Motors, Shanghai Volkswagen and Dongfeng Peugeot Citroen Automobile, in the China market. The Group was benefited from optimistic outlook of these major automakers about their long-term development of China's auto market.

Financial Review

Sales of loudspeaker systems for automobiles was increased by 78% to approximately HK\$246.5 million for the six months ended 30 June 2010 (2009: HK\$138.4 million), which accounted for approximately 85% (2009: approximately 83%) of its total turnover. The Group recorded sales of approximately HK\$55.9 million (2009: HK\$28.4 million) from sales of loudspeaker systems for home theatre. Increase in overall sales by 81% was primarily attributable to recovery of automobile market and hence rebound of shipments to customers.

The Group's performance was benefited from increase in production and steady raw material prices during the period under review. The gross profit margin ratio for the six months ended 30 June 2010 was about 24.1%, while it was about 19.4% in the corresponding period last year. As a result of increase in gross profit ratio, the Group recorded profit before income tax expense of approximately HK\$12.4 million for the six months ended 30 June 2010 (2009: loss of HK\$4.2 million).

Prospects

With the 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. We 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.

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

As at 30 June 2010, 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 Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares

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

Note: These shares are registered in the name of Newood Consultancy Limited, a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by 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 30 June 2010, none of the Directors and chief executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director of the Company, as at 30 June 2010, 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% |

(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 30 June 2010, 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

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

| Name or category of participant | Outstanding at 1 January 2010 | Granted during the period | Exercised during the period | Cancelled during the period | Outstanding at 30 June 2010 | 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 |
| | <u>10,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,000,000</u> | | |

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the period 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.

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 period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

The Group's ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited, Asian Elite International Company Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 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.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed above, 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 period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and required standard of dealings and its code of conduct regarding security transactions by the Directors throughout the six months ended 30 June 2010.

CORPORATE GOVERNANCE PRACTICES AND PROCEDURES

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

During the review period, the Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice 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 Group's unaudited results for the six months ended 30 June 2010 have been reviewed by the audit committee, which was of the opinion that such financial statements complied with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board
Yang Tsu Ying
Chairman

Hong Kong, 13 August 2010

As at the date of this report, the Board comprises of two executive Directors, namely Mr. Yang Tsu Ying and Mr. Yang Ching Yau; and three independent non-executive Directors, namely Mr. Yiu Chi Wah, Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu.