



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8226)

For the nine months ended 30 September 2010 Third Quarterly Report 2010

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

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

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This report, for which the directors (the “Directors”) of Sonavox International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

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 nine months ended 30 September 2010, together with the comparative figures as follows:

For the nine months ended 30 September 2010

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Continuing operations					
Turnover	3	157,864	110,619	413,781	254,084
Cost of sales		(114,793)	(80,419)	(305,802)	(193,984)
Gross profit		43,071	30,200	107,979	60,100
Other revenue, gains and losses		6,848	865	7,245	1,762
Selling and marketing costs		(4,709)	(3,295)	(12,100)	(7,199)
Administrative expenses		(15,663)	(10,538)	(55,122)	(32,967)
Finance costs		(2,245)	(2,250)	(7,117)	(7,069)
Profit before income tax expense		27,302	14,982	40,885	14,627
Income tax expense	4	(4,292)	(84)	(7,472)	(84)
Profit for the period from continuing operations		23,010	14,898	33,413	14,543
Discontinued operations					
Profit/(loss) for the period from discontinued operations	5	9,785	(1,620)	8,613	(5,479)
Profit for the period		32,795	13,278	42,026	9,064
Other comprehensive income					
– exchange differences on translating foreign operations		4,003	2,275	5,744	4,730
– Recognition of statutory reserves		–	–	–	(47)
Other comprehensive income for the period, net of tax		4,003	2,275	5,744	4,683
Total comprehensive income for the period		36,798	15,553	47,770	13,747

	For the three months ended 30 September		For the nine months ended 30 September	
	2010	2009	2010	2009
Notes	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)
Profit/(loss) attributable to:				
– owners of the Company	22,229	5,057	23,181	(966)
– non-controlling interests	10,566	8,221	18,845	10,030
	<u>32,795</u>	<u>13,278</u>	<u>42,026</u>	<u>9,064</u>
Total comprehensive income attributable to:				
– owners of the Company	24,844	7,285	26,855	(977)
– non-controlling interests	11,954	8,268	20,915	14,724
	<u>36,798</u>	<u>15,553</u>	<u>47,770</u>	<u>13,747</u>
Earning/(loss) per share (HK cent) 6				
From continuing and discontinued operations				
– basic	<u>6.84</u>	<u>1.56</u>	<u>7.13</u>	<u>(0.30)</u>
– diluted	<u>5.55</u>	<u>1.56</u>	<u>6.36</u>	<u>(0.30)</u>
From continuing operations				
– basic	<u>3.83</u>	<u>2.05</u>	<u>4.48</u>	<u>1.39</u>
– diluted	<u>3.24</u>	<u>2.05</u>	<u>4.32</u>	<u>1.39</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 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	-	-	-	412	-	-	(423)	(966)	(977)	14,724	13,747
Transfer to statutory reserves	-	-	-	150	-	-	-	(150)	-	-	-
At 30 September 2009	<u>3,251</u>	<u>27,682</u>	<u>10,672</u>	<u>7,812</u>	<u>1,623</u>	<u>2,441</u>	<u>9,642</u>	<u>16,486</u>	<u>79,609</u>	<u>95,493</u>	<u>175,102</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	-	-	-	-	-	-	3,674	23,181	26,855	20,915	47,770
Lapse of share options previously granted	-	-	-	-	(1,623)	-	-	1,623	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	-	(5,924)	(5,924)
Reserves released upon disposal of subsidiaries	-	-	(2,292)	-	-	-	(2,820)	2,292	(2,820)	-	(2,820)
At 30 September 2010	<u>3,251</u>	<u>27,682</u>	<u>9,388</u>	<u>6,812</u>	<u>-</u>	<u>2,441</u>	<u>15,033</u>	<u>41,923</u>	<u>106,530</u>	<u>113,808</u>	<u>220,338</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.

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 Fame Global Enterprises 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 (“HKASs”) 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. TURNOVER

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

4. 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 nine months ended 30 September 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 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax		
– PRC Enterprise Income Tax	7,472	333
Deferred tax	–	(249)
	<u>7,472</u>	<u>84</u>
Income tax expense	<u>7,472</u>	<u>84</u>

5. DISCONTINUED OPERATIONS

On 12 July 2010, the Group entered into a sale and purchase agreement to dispose of a subsidiary, Indigo Enterprises Inc.. Indigo Enterprises Inc. and its subsidiary (collectively referred to as the "Indigo Group") is based in the North America and is principally engaged in the provision of design, development and marketing of home and automotive audio products in the North American, European and Asian markets. The disposal was effected in order to cease the loss making operation of the Indigo Group and spare resources for the Group's other business operations at a reasonable price. The disposal was completed on 25 August 2010, on which date control of the Indigo Group passed to Newood Consultancy Limited, which is beneficially owned by Mr. Yang Tsu Ying and Mr. Yang Ching Yau. Mr. Yang Ching Yau is the executive director of the Company.

The profit/(loss) for the period from discontinued operations is analysed as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit/(loss) for the period from discontinued operations	10	(1,620)	(1,162)	(5,479)
Gain on disposal of subsidiaries	9,775	-	9,775	-
	<u>9,785</u>	<u>(1,620)</u>	<u>8,613</u>	<u>(5,479)</u>

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income, are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	19,597	16,939	66,160	40,271
Cost of sales	(17,126)	(15,552)	(55,725)	(36,413)
Gross profit	2,471	1,387	10,435	3,858
Other revenue, gains and losses	(15)	116	(154)	10
Selling and marketing costs	(294)	(341)	(1,357)	(1,030)
Administrative expenses	(2,051)	(2,720)	(9,715)	(8,164)
Finance costs	(101)	(62)	(371)	(153)
Profit/(loss) before income tax expense	10	(1,620)	(1,162)	(5,479)
Income tax expense	-	-	-	-
Profit/(loss) for the period	<u>10</u>	<u>(1,620)</u>	<u>(1,162)</u>	<u>(5,479)</u>

The consolidated net assets of the Indigo Group at the date of disposal were as follows:

	As at 25 August 2010
	<i>HK\$</i>
Net assets disposed of:	
Property, plant and equipment	1,987
Deferred tax assets	6,736
Intangible assets	16,262
Goodwill	5,787
Inventories	6,965
Trade and note receivables	30,897
Prepayments, deposits and other receivable	787
Cash and cash equivalents	6,034
Trade and note payables	(26,841)
Accruals and other payables	(1,429)
Amount due to holding company	(41,835)
Obligation under finance leases – due within one year	(7)
Bank borrowings – due within one year	(10,380)
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	(5,037)
Cumulative translation adjustment reserve realised	(2,820)
Reversal of amount due from subsidiaries	41,835
Gain on disposal of subsidiaries	9,775
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Total consideration, satisfied by cash	<u><u>43,753</u></u>

6. EARNING/LOSS PER SHARE**From continuing and discontinued operations**

The calculation of the basic and diluted earning/loss per share from continuing and discontinued operations is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Earning/loss				
Profit/(loss) for the purpose of calculating basic loss per share	<u>22,229</u>	<u>5,057</u>	<u>23,181</u>	<u>(966)</u>
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	<u>1,209</u>	<u>–</u>	<u>3,648</u>	<u>–</u>
Profit/(loss) for the purpose of calculating diluted loss per share	<u>23,438</u>	<u>5,057</u>	<u>26,829</u>	<u>(966)</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>325,089,974</u>	<u>325,089,974</u>	<u>325,089,974</u>	<u>325,089,974</u>
Effect of dilutive potential ordinary shares:				
Convertible bonds	<u>96,875,000</u>	<u>–</u>	<u>96,875,000</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earning/loss per share	<u>421,964,974</u>	<u>325,089,974</u>	<u>421,964,974</u>	<u>325,089,974</u>

From continuing operations

The calculation of the basic and diluted earning/loss per share from continuing operations is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Earning/loss				
Profit/(loss) for the period attributable to owners of the Company	22,229	5,057	23,181	(966)
Less: (Profit)/loss for the period from discontinued operations	(9,785)	1,620	(8,613)	5,479
Profit for the purpose of calculating basic earning per share	<u>12,444</u>	<u>6,677</u>	<u>14,568</u>	<u>4,513</u>
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	<u>1,209</u>	<u>-</u>	<u>3,648</u>	<u>-</u>
Profit for the purpose of calculating diluted earning/loss per share	<u>13,653</u>	<u>6,677</u>	<u>18,216</u>	<u>4,513</u>

The denominators used are the same as those detailed above for both basic and diluted earning/loss per share.

From discontinued operations

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK cent	2009 HK cent	2010 HK cent	2009 HK cent
Earning/loss per share				
- basic	<u>3.01</u>	<u>(0.50)</u>	<u>2.65</u>	<u>(1.69)</u>
- diluted	<u>2.32</u>	<u>(0.50)</u>	<u>2.04</u>	<u>(1.69)</u>

Basic and diluted earning/loss per share from discontinued operations is based on the profit from the discontinued operations of HK\$9,785,000 and HK\$8,613,000 for the three and nine months ended 30 September 2010 respectively (2009: loss of HK\$1,620,000 and HK\$5,479,000) and the denominators detailed above for both basic and diluted earning/loss per share.

No dilutive effect for the nine months ended 30 September 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.

7. DIVIDENDS

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

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 September 2010, the Group disposed of the loss making operations Indigo Group in order to spare resources for its other business operations at a reasonable price.

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\$254.1 million from continuing operations for the nine months ended 30 September 2009. As a result of economy recovery and rebound of shipments to customers, total turnover of the Group was increased by 62.8% to approximately HK\$413.8 million during the period under review when compared with that of corresponding period in 2009.

Mainland China remained the most important market of the Group, and the sales of loudspeaker systems in China contributed 47.0% of the Group's turnover from continuing operations for the nine months ended 30 September 2010 (2009: 50.6%). 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 64.2% to approximately HK\$398.9 million for the nine months ended 30 September 2010 (2009: HK\$242.9 million), which accounted for approximately 96.4% (2009: approximately 95.6%) of its total turnover. The Group recorded sales of approximately HK\$14.9 million (2009: HK\$11.2 million) from sales of loudspeaker systems for home theatre. Increase in overall sales by 62.8% 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 nine months ended 30 September 2010 was about 26.1%, while it was about 23.7% in the corresponding period last year. As a result of increase in gross profit ratio and gain on disposal of the Indigo Group of approximately HK\$9.8 million, the Group recorded net profit of approximately HK\$42.0 million for the nine months ended 30 September 2010 (2009: HK\$9.1 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 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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 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:

Long positions of Directors in ordinary shares and underlying shares of the Company

Name	Capacity	Number of shares held	Number of underlying shares held	Total	Percentage of interest
Mr. Shan Xiaochang	Interest of a controlled corporation	269,556,536	–	269,556,536	82.92%

Note: These shares are held by Fame Global Enterprises Limited ("Fame Global"). The entire issued share capital of Fame Global is beneficially owned by Mr. Shan Xiaochang, the chairman and chief executive officer of the Company and an executive Director, who is therefore deemed to be interested in the shares held by Fame Global.

Save as disclosed above, as at 30 September 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as was known to any Director of the Company, as at 30 September 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:

Long positions in the shares of the Company

Name	Capacity	Number of shares held	Number of underlying shares held	Total	Percentage of interest
Fame Global (Note)	Beneficial owner	269,556,536	–	269,556,536	82.92%
Mr. Shan Xiaochang (Note)	Interest of a controlled corporation	269,556,536	–	269,556,536	82.92%
Mr. Chan Ping Yee	Beneficial owner	–	96,875,000	96,875,000	29.80%

Note: The entire issued share capital of Fame Global was solely and beneficially owned by Mr. Shan Xiaochang, the chairman and chief executive officer of the Company and an executive Director, who is therefore deemed to be interested in the shares held by Fame Global.

Save as disclosed above, as at 30 September 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	Outstanding lapsed during the period	Outstanding at 30 September 2010	Exercisable period	Exercise price per share of the Company HK\$
(a) Director							
Mr. Yang Tsu Ying <i>(resigned on 11 September 2010)</i>	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>(10,000,000)</u>	<u>-</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

Mr. Yang Ching Yau, executive Director, is 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 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 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.

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. Lee Kam Fan Andrew, Mr. Wang Jialian and Mr. Wang Zhihua who are the independent non-executive Directors.

The Group's unaudited results for the nine months ended 30 September 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
Shan Xiaochang
Chairman

Hong Kong, 9 November 2010

As at the date of this report, the Board comprises of four executive Directors, namely Mr. Shan Xiaochang, Ms. Shan Zhuojun, Mr. Ma Arthur On-hing and Mr. Yang Ching Yau; and three independent non-executive Directors, namely Mr. Lee Kam Fan Andrew, Mr. Wang Jialian and Mr. Wang Zhihua.