



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2008

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONDENSED CONSOLIDATED INCOME STATEMENT (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 referred to as the “Group”) for the three months and six months ended 30th June 2008, together with the comparative figures for the corresponding periods in 2007 were as follows:

	Notes	For the three months ended 30th June		For the six months ended 30th June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	2	111,509	95,969	200,505	196,138
Cost of sales		<u>(92,441)</u>	<u>(79,720)</u>	<u>(163,629)</u>	<u>(164,803)</u>
Gross profit		19,068	16,249	36,876	31,335
Other gains - net	2	140	–	751	435
Selling and marketing costs		(2,441)	(3,268)	(7,913)	(7,169)
Administrative expenses		(15,781)	(11,261)	(26,675)	(19,287)
Finance costs		<u>(1,823)</u>	<u>(1,536)</u>	<u>(4,895)</u>	<u>(3,444)</u>
(Loss)/profit before income tax	3	(837)	184	(1,856)	1,870
Income tax	4	<u>440</u>	<u>(251)</u>	<u>928</u>	<u>(690)</u>
(Loss)/profit for the period		<u>(397)</u>	<u>(67)</u>	<u>(928)</u>	<u>1,180</u>
Attributable to:					
Equity holders of the Company		(314)	(488)	(1,802)	(120)
Minority interests		<u>(83)</u>	<u>421</u>	<u>874</u>	<u>1,300</u>
		<u>(397)</u>	<u>(67)</u>	<u>(928)</u>	<u>1,180</u>
Loss per share	6				
– Basic		<u>(0.097)</u>	<u>(0.150)</u>	<u>(0.554)</u>	<u>(0.037)</u>
– Diluted		<u>N/A</u>	<u>(0.150)</u>	<u>N/A</u>	<u>(0.037)</u>

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		As at	
		30th June 2008	31st December 2007
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	7	178,723	167,147
Land use rights	8	16,313	12,356
Deferred tax assets		11,499	10,347
Intangible assets	9	19,978	21,532
Goodwill		6,049	6,316
		232,562	217,698
Current assets			
Inventories	10	74,250	53,730
Land use rights	8	380	293
Trade and note receivables	11	92,953	105,508
Prepayments, deposits and other current assets		22,677	11,490
Due from a minority shareholder of Mainland China subsidiaries		262	246
Tax recoverable		833	–
Bank balances and cash		44,535	25,190
Deferred tax assets		1,313	1,353
		237,203	197,810
Current liabilities			
Trade and note payables	12	118,835	101,238
Accruals and other payables		32,822	28,226
Obligations under finance lease			
– due within one year		317	326
Due to the ultimate holding company		5,000	–
Bank borrowings – due within one year		96,456	76,262
Embedded derivate financial instrument		6,593	6,593
Tax payable		–	3,403
		260,023	216,048
Net current liabilities		(22,820)	(18,238)
Total assets less current liabilities		209,742	199,460

		As at	
		30th June	31st December
		2008	2007
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Obligations under finance lease			
– due after one year		70	231
Deferred tax liabilities		1,892	1,892
Bank borrowings – due after one year		2,319	2,382
Convertible bonds		37,668	36,109
		<u>41,949</u>	<u>40,614</u>
		<u>167,793</u>	<u>158,846</u>
Capital and reserves			
Share capital	13	3,251	3,251
Reserves		92,962	84,889
		<u>96,213</u>	<u>88,140</u>
Equity attributable to equity holders of the Company		96,213	88,140
Minority interests		71,580	70,706
		<u>167,793</u>	<u>158,846</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

	Attributable to equity holders of the Company										
	Share capital	Share premium	Property revaluation reserve	Statutory reserves	Merger reserve	Share-based payment reserve	Cumulative translation adjustment	Accumulated profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2008 (Audited)	3,251	27,682	2,598	7,250	2,441	1,948	15,235	27,735	88,140	70,706	158,846
Profit/(loss) for the six months ended 30th June 2008	-	-	-	-	-	-	-	(1,802)	(1,802)	874	(928)
Translation adjustments	-	-	-	-	-	-	9,875	-	9,875	-	9,875
At 30th June 2008 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>7,250</u>	<u>2,441</u>	<u>1,948</u>	<u>25,110</u>	<u>25,933</u>	<u>96,213</u>	<u>71,580</u>	<u>167,793</u>
At 1st January 2007 (Audited)	3,251	27,682	2,598	6,813	2,441	1,948	6,255	33,868	84,856	63,358	148,214
Profit/ (loss) for the six months ended 30th June 2007	-	-	-	-	-	-	-	(120)	(120)	1,300	1,180
Translation adjustments	-	-	-	-	-	-	(9,472)	-	(9,472)	-	(9,472)
At 30th June 2007 (Unaudited)	<u>3,251</u>	<u>27,682</u>	<u>2,598</u>	<u>6,813</u>	<u>2,441</u>	<u>1,948</u>	<u>(3,217)</u>	<u>33,748</u>	<u>75,264</u>	<u>64,658</u>	<u>139,922</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30th June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Net cash inflow from operating activities	12,222	3,598
Net cash used in investing activities	(15,097)	(29,606)
Net cash inflow from financing activities	<u>21,625</u>	<u>28,856</u>
Net increase in cash and cash equivalents	18,750	2,848
Cash and cash equivalent at beginning of period	25,190	34,599
Effect of foreign exchange rate changes	<u>595</u>	<u>—</u>
Cash and cash equivalents at end of period	<u><u>44,535</u></u>	<u><u>37,447</u></u>

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. They have been prepared under historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities.

The principal accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s audited financial statements for the year ended 31st December 2007. The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of loudspeaker systems. Revenues recognised during the period are as follows:

	For the three months ended 30th June		For the six months ended 30th June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Turnover				
Manufacture and sales of loudspeaker systems	111,509	95,969	200,505	196,138
Other gains-net				
Interest income	102	83	129	115
Government subsidy	–	–	572	–
Others	38	(83)	50	320
	140	–	751	435
Total revenue	111,649	95,969	201,256	196,573

The Group is organised on a world wide basis with one business segment in the Mainland China, Japan, North America, European Union countries and other Asian countries. Accordingly, the Directors consider there is one business segment and six geographical segments.

For the six months ended 30th June 2008

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Japan <i>HK\$'000</i>	North America <i>HK\$'000</i>	European Union countries <i>HK\$'000</i>	Other Asian countries <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	2,369	86,453	11,226	64,488	23,230	12,739	200,505
Segment results	(2,260)	3,059	435	1,308	282	(536)	2,288
Other gains – net							751
Finance costs							(4,895)
Loss before income tax							(1,856)
Income tax							928
Loss for the period							(928)
Minority interests							(874)
Loss attributable to equity holders of the Company							(1,802)

For the six months ended 30th June 2007

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Japan <i>HK\$'000</i>	North America <i>HK\$'000</i>	European Union countries <i>HK\$'000</i>	Other Asian countries <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	3,252	56,781	8,782	97,630	7,105	22,588	196,138
Segment results	(1,198)	1,646	127	2,939	360	1,005	4,879
Other gains – net							435
Finance costs							(3,444)
Profit before income tax							1,870
Income tax							(690)
Profit for the period							1,180
Minority interests							(1,300)
Loss attributable to equity holders of the Company							(120)

3. (LOSS) / PROFIT BEFORE INCOME TAX

The Group's (loss)/profit before income tax has been arrived by charging:

	For the six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
Depreciation and amortisation	10,690	6,480

4. INCOME TAX

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	For the three months ended 30th June		For the six months ended 30th June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current taxation	339	373	(149)	935
Deferred taxation	(779)	(122)	(779)	(245)
	(440)	251	(928)	690

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The Company's subsidiary established in the British Virgin Islands is incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of the British Virgin Islands income taxes.

The Company's subsidiary established in Canada, Sonavox Canada Inc. ("SCI") is subject to National and Ontario corporation income taxes at an aggregate rate of 34%.

Suzhou Shangsheng Electrics Co. Ltd. ("Shangsheng Electrics"), Suzhou Sonavox Acoustics Co. Ltd. ("Sonavox Acoustics"), Suzhou Shangsheng Technology Co. Ltd. ("Shangsheng Technology") and Suzhou Hesheng Industrial Co., Ltd. ("Suzhou Hesheng"), being foreign investment enterprises established in the Coastal Open Economic Region of Suzhou, Mainland China, are subject to preferential enterprise income tax ("EIT") rate of 27%, representing 24% state EIT rate and 3% local EIT rate, and are entitled to full exemption from EIT for two years starting from its first profit-making year to be followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Sonavox Acoustics, Shangsheng Technology and Suzhou Hesheng have been reporting tax loss since its establishment.

Shangsheng Electrics was exempted from Mainland China enterprise income tax up to 31st December 1997 and it is subject to EIT at a rate of 15% from 1st January 1998 to 31st December 2000. Pursuant to an approval from the local tax authority of Mainland China, Shangsheng Electrics continued to be entitled to 50% reduction in tax rate from 1st January 2001 to 31st December 2003, being qualified as a “new and high technology enterprise”. The tax exemption and reduction period of Shangsheng Electrics expired in 2005. As Shangsheng Electrics is recognised as a “Technology-incentive and Labour-incentive Enterprise”, it is currently subject to EIT of 15%.

No provision for Hong Kong profits tax has been made as there is no assessable profit (2007: Nil) for the subsidiaries operating in Hong Kong during the period ended 30th June 2008.

5. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June 2008 (2007: Nil).

6. LOSS PER SHARE

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

	For the three months ended 30th June		For the six months ended 30th June	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	(314)	(488)	(1,802)	(120)
Weighted average number of ordinary shares in issue ('000)	325,090	325,090	325,090	325,090
Basic loss per share (HK cent per share)	<u>(0.097)</u>	<u>(0.150)</u>	<u>(0.554)</u>	<u>(0.037)</u>

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

Diluted loss per share for the three months and six months ended 30th June 2008 has not been presented, as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the respective periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the period from 1st January 2008 to 30th June 2008, the Group had additions to property, plant and equipment of approximately HK\$11,951,000 and disposed of property, plant and equipment with net book value of approximately HK\$119,000.

8. LAND USE RIGHTS

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

	30th June 2008 HK\$'000 (Unaudited)	31st December 2007 HK\$'000 (Audited)
Outside Hong Kong, held on leases of 50 years	16,693	12,649
Beginning of period	12,649	11,927
Additions	3,395	–
Amortisation of prepaid lease payments	(174)	(283)
Translation adjustments	823	1,005
End of period	16,693	12,649
Analysed for reporting purposes as:		
Current asset		
Non-current asset	380	293
	16,313	12,356
	16,693	12,649

9. INTANGIBLE ASSETS

	Trademark and patents <i>HK\$'000</i> (Unaudited)
Cost	
At 1st January 2008	24,442
Translation adjustment	(469)
	<hr/>
At 30th June 2008	23,973
	<hr/>
Accumulated amortisation	
At 1st January 2008	2,910
Provided for the period	801
Translation adjustment	284
	<hr/>
At 30th June 2008	3,995
	<hr/>
Carrying amounts	
At 30th June 2008	19,978
	<hr/> <hr/>
At 31st December 2007	21,532
	<hr/> <hr/>

10. INVENTORIES

	30th June 2008 <i>HK\$'000</i> (Unaudited)	31st December 2007 <i>HK\$'000</i> (Audited)
Raw materials	34,727	26,388
Work-in-progress	6,525	6,058
Finished goods	32,998	21,284
	<hr/>	<hr/>
	74,250	53,730
	<hr/> <hr/>	<hr/> <hr/>

At 30th June 2008, inventories of approximately HK\$67,725,000 (31st December 2007: HK\$47,672,000) were stated at net realisable value.

11. TRADE AND NOTE RECEIVABLES

The majority of the Group's sales is on open account in accordance with terms specified in the contracts governing relevant transactions. The credit period is generally for a period of 90 days.

As at 30th June 2008, the ageing analysis of the Group's trade and note receivables was as follows:

	30th June 2008 HK\$'000 (Unaudited)	31st December 2007 HK\$'000 (Audited)
0 – 30 days	40,194	64,217
31 – 60 days	25,060	23,148
61 – 90 days	10,549	10,089
91 – 180 days	16,796	6,915
181 – 360 days	3,516	3,355
Over 360 days	439	1,173
	<hr/>	<hr/>
	96,554	108,897
Less: Allowance for doubtful debts	(3,601)	(3,389)
	<hr/>	<hr/>
	92,953	105,508
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND NOTE PAYABLES

As at 30th June 2008, the ageing analysis of the Group's trade and note payables was as follows:

	30th June 2008 HK\$'000 (Unaudited)	31st December 2007 HK\$'000 (Audited)
0 – 30 days	60,511	51,944
31 – 60 days	26,732	23,538
61 – 90 days	15,007	17,642
91 – 180 days	13,156	7,324
181 – 360 days	3,001	504
Over 360 days	428	286
	<hr/>	<hr/>
	118,835	101,238
	<hr/> <hr/>	<hr/> <hr/>

13. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value <i>HK\$'000</i>
Authorised:		
At 31st December 2007 (Audited) and at 30th June 2008 (Unaudited)	20,000,000,000	200,000
	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 31st December 2007 (Audited) and at 30th June 2008 (Unaudited)	325,089,974	3,251
	<u>325,089,974</u>	<u>3,251</u>

14. COMMITMENTS

(a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred are as follows:

	30th June 2008 <i>HK\$'000</i> (Unaudited)	31st December 2007 <i>HK\$'000</i> (Audited)
Property, plant and equipment Contracted but not provided for	2,600	15,639
	<u>2,600</u>	<u>15,639</u>

(b) Commitments under operating leases

At 30th June 2008, the Group had aggregate minimum lease payments under non-cancellable operating lease as follows:

	30th June 2008 <i>HK\$'000</i> (Unaudited)	31st December 2007 <i>HK\$'000</i> (Audited)
Within one year	995	1,043
In the second to fifth year inclusive	3,166	3,741
	<u>4,161</u>	<u>4,784</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group continued to strengthen its performance of main streams line of business of manufacture and sales of automobile loudspeaker systems. According to the China Association of Automobile Manufacturers, sales of sedan cars in China in the first half of 2008 has gradually increased by about 16% compared with the same period last year. Given the continuous increase in demand for automobiles in China and well developed relationship with overseas automakers, the Group has committed to grasp profitable growth opportunities and improve its performance.

Senior management is aware of the importance of innovation and technology. During the review period, there were at least 4 new systems for docking type products have been developed by the Group's subsidiary in Canada and more than 2 types of amplifiers were developed for automakers that will fuel the Group's turnover for the year 2008.

Financial review

For the six months ended 30 June 2008, the Group kept its steady performance, and achieved a turnover of approximately HK\$200.5 million (2007: HK\$196.1 million). The gross profit margin ratio for the six months ended 30th June 2008 was about 18%, while it was about 16% in the previous period.

The Group recorded loss before income tax of approximately HK\$1.9 million for the six months ended 30th June 2008 (2007: profit of approximately HK\$1.9 million). Increase in the Group's total expenses was mainly attributable to commencement of operations of three non-wholly owned subsidiaries in China and Germany in 2007. Finance costs increased by 42% from approximately HK\$3.4 million in the same period last year to HK\$4.9 million in this period, as a result of additional bank loans obtained in China for production capabilities expansion during the period under review.

Business prospects

Although the current economic factors in China such as the higher oil price, higher wages and salaries and macro economic control by the Chinese Government, the Directors strongly believe that most of the automakers in Europe, Japan and the United States of America will continuously raise local content of their cars made in China in order to response the automobile market quickly in China. As such, a strong foothold in automobile industry is expected to be further established in the coming period.

To seize the immense business opportunities ahead, the Group will continue to invest more resources in implementing vertical and horizontal integrated production plans, in order to stabilize the Group's production cost, improve production efficiency, ensure quality consistency and reliability, as well as capture higher profit margins.

Liquidity, financial resources and treasury policies

During the six months ended 30th June 2008, the Group's major business operations took place in China and Canada, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 30th June 2008, the Group had cash and bank deposits of approximately HK\$44,535,000 (31st December 2007: HK\$25,190,000). The Group's current ratio stood at 0.91 as at 30th June 2008 and 0.91 as at 31st December 2007. The increase in cash and bank deposits was primarily attributable to the increase in corporate borrowings during the period under review. The Group had bank overdrafts of approximately HK\$8,352,000 (31st December 2007: HK\$9,269,000) bearing interest rates at commercial prime lending rate plus 0.75% per annum and short-term bank loans of approximately HK\$88,006,000 (31st December 2007: HK\$66,912,000) bearing interest rates ranging from 4.65% to 6.55% per annum with repayment within a year.

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"), European dollars ("Euros") and Canadian dollars ("CAD"). The Group's liquidity and financial arrangements are reviewed regularly by the Board and senior management.

Capital commitments and contingent liabilities

As at 30th June 2008, the Group had capital commitment of approximately HK\$2,600,000 (31st December 2007: HK\$15,639,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK\$4,161,000 (31st December 2007: HK\$4,784,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established in 2006 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 30th June 2008, the Group had outstanding commitments of approximately US\$3,931,000 and US\$2,550,000 respectively for capital contribution to these two subsidiaries.

As at 30th June 2008, the Group did not have any significant contingent liabilities.

Material acquisition/disposals and significant investment

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

At present, the Group has no future plan for material disposal of significant investments.

Exposure on exchange rate fluctuation

Most of the Group's bank borrowings were denominated in RMB, CAD and USD, whilst receipts and expenditures of the Group were denominated in RMB, HKD, USD, Euros and CAD during the period. The Group is subject to foreign exchange exposure in RMB / CAD against USD and Euros. However, the Group was able to partially mitigate the foreign exchange impact by entering sale 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\$143,627,000 for overdrafts and loan financing as at 30th June 2008. Unused bank facilities as at the same date amounted to approximately HK\$47,268,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group.

Number of employees

A breakdown of the number of employees of the Group by function as at 30th June 2008 and 31st December 2007 were set out below:

	As at 30 June 2008	As at 31 December 2007
Management and administration	76	69
Sales and marketing	57	43
Manufacturing and operations	1,465	1,612
Research and development	61	91
Quality assurance and quality control	147	150
Finance and accounting	14	14
	<u>1,820</u>	<u>1,979</u>

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 and Hong Kong in relation thereto including contributions to society security scheme of the Mainland China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and provision of training programmes to eligible employees.

Total employee benefit expense incurred for the six months ended 30th June 2008 increased to approximately HK\$34,597,000 (2007: HK\$27,882,000) mainly due to appreciation of RMB, as well as statutory salary and pension costs increased for workers and managerial staff and quality control staff in China during the period under review. The Company's directors had received remuneration of approximately HK\$319,000 (2007: HK\$294,000) during the six months ended 30th June 2008.

Training Schemes

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

OTHER INFORMATION

Purchase, sale or redemption of shares

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

Pre-emptive rights

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

Connected transactions

On 28th February 2007, 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 95% 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, subwoofers and tweeter systems from Sonavox Electronics.

Directors' and chief executives' interests or short positions in the shares or debentures

As at 30th June 2008, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares

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

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

(b) Long positions in the shares of equity derivatives of the Company

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

Save as disclosed in this paragraph, as at 30th June 2008, none of the Directors and chief executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders

So far as was known to any Director of the Company, as at 30th June 2008, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) Long positions in the shares of the Company

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

(b) Long positions in the shares of equity derivatives of the Company

Name	Capacity	Description of equity derivatives	Number of share options	Percentage of interest
Yang Tsu Ying	Beneficial owner	Share option	2,000,000	0.615%
Yang Ching Yau	Beneficial owner	Share option	2,000,000	0.615%
Yang Chuang Ching-Hsiu (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 HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.
2. Madam Yang Chuang Ching-Hsiu is the spouse of Mr. Yang Tsu Ying and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Tsu Ying is interested.
3. Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares and 2,000,000 share options in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 30th June 2008, the Directors were not aware of any other person or company who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

Other interests discloseable under the SFO

Save as disclosed in the preceding paragraphs headed “Directors’ and chief executives’ interests or short positions in the shares or debentures” and “Substantial shareholders”, so far as is known to the Directors, there is no other person or company who has an interest or short position in the shares, underlying shares or debentures of the Company that is discloseable under the SFO.

Directors' interest in competing business

The Group's ultimate controlling shareholders and executive 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 and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15th July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

Rights of Directors and employees to acquire shares or debentures

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, and suppliers or customers of the Group. The Scheme became effective on 8th July 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years commencing on the effective date. The share options granted to and held by the Company's directors during the year were as follows:

Name	Outstanding as at 31st December 2007 and 30th June 2008	Exercise period	Subscription price HK\$
Mr. Yang Tsu Ying	2,000,000	28th June 2006 to 27th June 2015	0.345
Mr. Yang Ching Yau	2,000,000	28th June 2006 to 27th June 2015	0.345

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company, was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

Audit committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 and Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee members include:

Mr. Fan Chi Fai, Paul* – Committee Chairman

Mr. Yiu Chi Wah*

Mr. Lee Fang Yu*

* Independent non-executive Director

The Group's unaudited results for the six months ended 30th June 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and that adequate disclosures have been made.

Nomination committee

The nomination committee was established on 28th June 2005 with written terms of reference in compliance with Appendix 15 of the GEM Listing Rules and chaired by the chief executive officer of the Company to make recommendations to the Board on the appointment of Directors and the senior management personnel with reference to certain guidelines as endorsed by the nomination committee members. The nomination committee members include a majority of independent non-executive Directors as follows:

Mr. Yang Ching Yau – Committee Chairman

Mr. Yiu Chi Wah*

Mr. Lee Fang Yu*

* Independent non-executive Director

Remuneration committee

The remuneration committee was established on 28th June 2005 with written terms of reference in compliance with Appendix 15 of the GEM Listing Rules and is chaired by an independent non-executive Director with the responsibility of approving the remuneration policy for all directors and senior executives. The remuneration committee members include a majority of independent non-executive Directors as follows:

Mr. Yiu Chi Wah* - Committee Chairman
Mr. Lee Fang Yu*
Mr. Fan Chi Fai, Paul*
Mr. Yang Ching Yau

* Independent non-executive Director

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the period ended 30th June 2008.

Corporate governance practices and procedures

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

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

On behalf of the Board
Yang Ching Yau
Executive Director

Hong Kong, 11th August 2008

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its posting and on the Company's website at www.sonavox.com.hk.