



# SONAVOX INTERNATIONAL HOLDINGS LIMITED

## 上聲國際控股有限公司

(Trade code: 8226)

*(incorporated in the Cayman Islands with limited liability)*

### FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2007

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*This announcement, for which 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.*

## CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the year ended 31st December 2007.

Sonavox celebrated its 15th corporate anniversary in 2007. For the past fifteen years, Sonavox has ridden the waves in the industry to grow progressively. Along the way, Sonavox has made many significant achievements and breakthroughs in the industry. Looking back, Sonavox is proud of the leading position it has established and sustained in manufacture and sale of loudspeaker systems in China and overseas markets.

Year 2007 has been an important year for Sonavox. Recognized as the engine for economic growth, the China automobile market continued to experience strong growth during the year. According to the China Association of Automobile Manufacturers ("CAAM"), China produced 8.8 million (2006: 7.3 million) vehicles and sold 8.7 million (2006: 7.2 million) in year 2007. China became the second largest new car market in the world behind the United States. During the year, the Group continued to provide quality and high performance loudspeaker systems for leading automakers in China, customers such as Shanghai Volkswagen, Shanghai General Motors and DongFeng Motors, we continued to increase our market shares and maintained our leading loudspeaker manufacturer position in the China market. Despite the challenging economic environment in overseas markets, Sonavox has made significant achievements in the past year in developing new loudspeaker systems for major customers, who are all leaders in the worldwide automobile industry, such as Ford Motors Company and Volkswagen AG. Sale of loudspeaker systems for automobiles remained as the Group's major revenue stream, accounted for approximately 60% (2006: approximately 55%) of its total turnover. The Group's turnover generated from sale of automobile loudspeaker systems increased by 24% to approximately HK\$254 million.

On the automobile electronic market, we are happy to report that we have successfully developed a series of digital amplifiers for a renowned automaker in the United States, which promises new growth opportunities. Last year, we established a new division for development of electronics products for automobiles, marking the successful establishment of a foothold in the international automobile electronic market by the Group. The persistently rising demand for quality car audio manufacturing on an OEM basis and the trend of installing quality in-car audiovisual entertainment systems are driving the demands for high quality automobile loudspeaker and amplifier systems. We are confident that the Group's entry into the automobile electronic market and its ability to capture new business opportunities will bear fruit in the next fiscal year.

With regard to the Group's loudspeaker systems for home theatre, sales slightly dropped by 2% to approximately HK\$162 million. The primary reason for the slightly decline of sales in home theatre systems was due to the late launches of some high-end multimedia products. Further, the Group has changed some of its revenue model from sale of a whole product to simply rendering technical service in return for a higher margin royalty income.

The Group continued to increase in long-term investment on rolling out several major projects for existing and new customers in overseas and further investment on expanding the Group's sale and manufacture of new audio products in China and overseas markets. These existing projects will become growth drivers for the Group's business for the year ahead as their contributions are reflected in the financial statements, a move which will commence from next fiscal year. In addition, Sonavox with its strong R&D capabilities developed in China and Canada, and close relationship with renowned automakers and leading companies in audio industry, we are confident that these efforts, mirroring our determination to revenue grow, will improve the Group's gross profit margin in the next fiscal year. During the year under review, the Group launched new generation of Digital Signal Processor ("DSP") and upgraded the Group's patented technology, BASH<sup>®</sup>, for various multimedia docking station audio products. These projects were a very extensive and difficult that has implemented for more than 15 months. As a result of this new generation of DSP and upgraded BASH<sup>®</sup> technology, a new core competency to compliment to the Group's existing power platforms and lower the cost of production for amplifier will be reaping fruitful results and bringing future revenue to the Group.

The relocation of office and production from the old factory to the new factory in Toronto, Canada, completed in October 2007. The new building not only provided a better working environment but also brought an annual operating lease and other utilities savings of at least 30%. The relocation of factory has necessitated incurrence of some non-recurring costs amounted to approximately HK\$1.4 million which includes the movement expenditure, realty tax and additional overtime labour cost to meet committed delivery schedules.

The Group further integrated its production capabilities vertically in order to maintain a consistent quality and just-in-time delivery service, the Group's manufacturing capabilities for automobile loudspeaker systems and home theatre loudspeaker systems has reached 30,000,000 units and 1,000,000 sets per year respectively. Capital expenditure of approximately HK\$42.7 million was incurred for the year ended 31st December 2007.

## **BUSINESS PROSPECTS**

Although the possible economic slowdown in the United States and European markets together with the impact on the economic austerity measures of the China government, we still have confident of further expanding the market share of our quality and high performance loudspeaker systems for automobiles and maintaining our leading position in the China automobile industry. The reason is that according to CAAM, forecast of automobiles sales in China will hit a record 10 million units in 2008 and China automobile market has overtaken Japan to become the world's second largest car market trailing only the United States. Currently, vehicle ownership in China was 44 for every 1,000 people. This was far below the world average of 120. Compared with the United States, it had 750 vehicles for every 1,000 people. Further, as living standard and China GDP continued to improve, the growth in demand for mid to high-end quality car is expected to accelerate. For overseas automobile loudspeaker markets, despite the impact

of the subprime mortgage crisis may be seeping into low-end car loan sector, we believe that sale of mid- to high-quality car would not be significantly affected.

Apart from the loudspeaker systems for automobile market, we believe that the global consumer electronics market, especially China, is huge and has plenty of room for continuous growth over the next few years. With the launch of new multimedia and home theatre loudspeaker products in year 2007, significant amount of revenue will be generated in year 2008. Completion of the new generation of DSP based platforms, despite the volume of products will not be high, it is definitely represent the best of the market and it would be a significant statement for Sonavox. Even though economic conditions are not favourable, we expect a single-digit revenue growth from home theatre loudspeaker systems market.

We expect 2008 to be another challenging year. Our consistent quality and R&D improvement have boosted our confidence in further expanding overseas markets in the future. Additionally, boasting comprehensive vertical integration in the prior years, the Group is ready to exploit the vast potential of the China market. We also believe that the Group's persistent strive for quality and advanced technical expertise will allow the Group to capture the immense business opportunities ahead.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity, financial resources and treasury policies**

During 2007, the Group's major business operations took place in China and Canada, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 31st December 2007, the Group had cash and bank deposits of approximately HK\$25,190,000 (2006: HK\$34,599,000). Current ratio dropped from 1.03 to 0.91 mainly due to the Group raised new loans in China and Hong Kong during the year. The decrease in cash and bank deposits was primarily attributable to the increase in inventories and trade receivables due to surging sale orders received by the end of the financial year. The Group had bank overdrafts of approximately HK\$9,269,000 (2006: HK\$9,499,000) bearing interest rates at Canada's commercial prime lending rate plus 0.75% per annum and short-term bank loans of approximately HK\$66,912,000 (2006: HK\$35,917,000) bearing interest rates ranging from 3.95% to 6.10% 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, 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 commitment and contingent liabilities**

As at 31st December 2007, the Group has capital commitment of approximately HK\$15,639,000 (2006: HK\$19,480,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitment of approximately HK\$4,784,000 (2006: HK\$1,765,000).

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st December 2007, the Company had outstanding commitments of approximately US\$3,931,000 and US\$2,050,000 respectively for capital contribution to these two subsidiaries.

As at 31st December 2007, 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 year. 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 transaction with one of the major overseas customers denominated in RMB and entering purchase contract with overseas suppliers denominated 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\$115,898,000 for overdrafts and loan financing as at 31st December 2007. Unused bank facilities as at the same date amounted to approximately HK\$27,825,000. These facilities were secured by pledges over land use rights, buildings and certain trade receivables of the Group with a carrying value of approximately HK\$97,022,000.

### **Dividend**

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2007.

A breakdown of the number of employees of the Group by function as at 31st December 2006 and 2007 is set out below:

	<b>2007</b>	2006
Management and administration	<b>69</b>	68
Sales and marketing	<b>43</b>	40
Manufacturing and operations	<b>1,612</b>	1,370
Research and development	<b>91</b>	70
Quality assurance and quality control	<b>150</b>	126
Finance and accounting	<b>14</b>	14
	<hr/>	<hr/>
Total	<b>1,979</b>	1,688
	<hr/> <hr/>	<hr/> <hr/>

### **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 China, Canada and Hong Kong in relation thereto including contributions to society security scheme of China, contribution to the Mandatory Provident Fund Scheme of Hong Kong, mandatory Canada Pension Plan and provision of training programmes to eligible employees.

Total employee benefit expense incurred for the year ended 31st December 2007 increased to approximately HK\$68,662,000 (2006: HK\$46,739,000) due to increase in number of employees and statutory salary and pension costs increased for workers and managerial staff and quality control staff in China during the year under review. The Company's directors had received remuneration of approximately HK\$613,000 (2006: HK\$718,000) during the year ended 31st December 2007.

### **Training schemes**

The Group provides on-going training programmes for its employees to keep them abreast of the latest market trends and new technologies of loudspeaker systems, and also to enhance their knowledge on latest international quality standards. During the year, the Group provided more than 50 different training programmes to its management staff to sharpen their management skills and techniques.

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

The Directors have the pleasure of presenting the audited consolidated income statement and consolidated balance sheet of Sonavox International Holdings Limited (hereinafter as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) as at and for the year ended 31st December 2007 as follows:

	NOTES	2007 HK\$'000	2006 HK\$'000
Turnover	3	422,204	369,302
Cost of goods sold		<u>(353,702)</u>	<u>(306,103)</u>
Gross profit		68,502	63,199
Other gains – net	3	2,695	4,805
Selling and marketing costs		(16,434)	(15,403)
Administrative expenses		(50,929)	(34,024)
Finance costs	4	<u>(11,100)</u>	<u>(6,711)</u>
(Loss)/profit before income tax		(7,266)	11,866
Income tax expense	5	<u>1,704</u>	<u>(3,156)</u>
(Loss)/profit for the year		<u><u>(5,562)</u></u>	<u><u>8,710</u></u>
Attributable to:			
Equity holders of the Company		(5,696)	3,602
Minority interests		<u>134</u>	<u>5,108</u>
		<u><u>(5,562)</u></u>	<u><u>8,710</u></u>
(Loss)/Earnings per share	6		
– Basic		<u><u>(HK cent 1.75)</u></u>	<u><u>HK cent 1.11</u></u>
– Diluted		<u><u>(HK cent 1.75)</u></u>	<u><u>HK cent 1.11</u></u>
Dividends	7	<u><u>–</u></u>	<u><u>–</u></u>

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		167,147	140,758
Land use rights		12,356	11,651
Deferred tax assets		10,347	5,849
Intangible assets		21,532	19,600
Goodwill		6,316	5,299
		<u>217,698</u>	<u>183,157</u>
<b>Current assets</b>			
Inventories		53,730	38,617
Land use rights		293	276
Trade and note receivables	8	105,508	92,599
Prepayments, deposits and other current assets		11,490	11,098
Due from a minority shareholder of China subsidiaries		246	878
Bank balances and cash		25,190	34,599
Deferred tax assets		1,353	1,716
		<u>197,810</u>	<u>179,783</u>
<b>Current liabilities</b>			
Trade and note payables	9	101,238	91,851
Accruals and other payables		28,226	27,158
Obligations under finance lease			
– due within one year		326	201
Bank borrowings – due within one year		76,262	45,489
Embedded derivative financial instrument		6,593	6,604
Tax payable		3,403	3,969
		<u>216,048</u>	<u>175,272</u>
<b>Net current (liabilities)/assets</b>		<u>(18,238)</u>	<u>4,511</u>
<b>Total assets less current liabilities</b>		<u>199,460</u>	<u>187,668</u>

**CONSOLIDATED BALANCE SHEET** *(continued)*

AS AT 31ST DECEMBER 2007

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>Non-current liabilities</b>		
Obligations under finance lease		
– due after one year	<b>231</b>	295
Deferred tax liabilities	<b>1,892</b>	1,892
Bank borrowings – due after one year	<b>2,382</b>	2,472
Convertible bonds	<b>36,109</b>	34,795
	<hr/> <b>40,614</b>	<hr/> 39,454
	<hr/> <b>158,846</b> <hr/>	<hr/> 148,214 <hr/>
<b>Capital and reserves</b>		
Share capital	<b>3,251</b>	3,251
Reserves	<b>84,889</b>	81,605
	<hr/> <b>88,140</b>	<hr/> 84,856
Equity attributable to equity holders of the Company	<b>88,140</b>	84,856
Minority interests	<b>70,706</b>	63,358
	<hr/> <b>158,846</b> <hr/>	<hr/> 148,214 <hr/>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER 2007**

Attributable to equity holders of the Company

	Share capital		Property revaluation reserve		Statutory reserves		Share based payment reserve	Cumulative translation adjustment reserve		Accumulated profits	Minority interests	
	HK\$'000	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 2006	3,200	25,753	2,598	6,466	1,948	2,441	1,729	30,613	74,748	58,250	132,998	
Profit for the year	-	-	-	-	-	-	-	3,602	3,602	5,108	8,710	
Transfer to statutory reserves	-	-	-	347	-	-	-	(347)	-	-	-	
Shares issued on acquisition of a subsidiary	51	1,929	-	-	-	-	-	-	1,980	-	1,980	
Translation adjustments	-	-	-	-	-	-	4,526	-	4,526	-	4,526	
At 31st December 2006 and 1st January 2007	3,251	27,682	2,598	6,813	1,948	2,441	6,255	33,868	84,856	63,358	148,214	
Profit/(loss) for the year	-	-	-	-	-	-	-	(5,696)	(5,696)	134	(5,562)	
Transfer to statutory reserves	-	-	-	437	-	-	-	(437)	-	-	-	
Translation adjustments	-	-	-	-	-	-	8,980	-	8,980	7,214	16,194	
At 31st December 2007	3,251	27,682	2,598	7,250	1,948	2,441	15,235	27,735	88,140	70,706	158,846	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

### 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are effective for the Group’s financial year beginning on 1st January 2007. The application of the new and revised HKFRSs has had no material effect on how the results and financial position for the current and prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective for the Group’s financial year beginning on 1st January 2007. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKFRS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC) – Interpretation (“INT”) 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK (IFRIC) – INT 12	Service Concession Arrangements <sup>3</sup>
HK (IFRIC) – INT 13	Customer Loyalty Programmes <sup>4</sup>
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1st January 2008.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover		
Manufacture and sales of loudspeaker systems	<u>422,204</u>	<u>369,302</u>
Other gains – net		
Interest income	159	306
Subsidy income	–	282
Sales of scrap materials	664	3,379
Service fee income	1,407	–
Gain on issue of convertible bonds	–	468
Fair value changes in embedded derivative financial instrument	33	171
Others	<u>432</u>	<u>199</u>
	<u>2,695</u>	<u>4,805</u>
Total revenues	<u><u>424,899</u></u>	<u><u>374,107</u></u>

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

	2007						Group HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover	8,280	153,180	18,953	177,484	32,447	31,860	422,204
Segment result	<u>(3,449)</u>	<u>2,427</u>	<u>320</u>	<u>1,469</u>	<u>340</u>	<u>32</u>	1,139
Other gains – net							2,695
Finance costs							(11,100)
Loss before income tax							(7,266)
Income tax credit							1,704
Loss for the year							(5,562)
Minority interests							(134)
Loss attributable to equity holders of the Company							<u>(5,696)</u>

	2007						Group HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Segment assets	12,724	324,819	–	66,043	222	–	403,808
Unallocated assets							11,700
Total assets							<u>415,508</u>
Segment liabilities	11,276	173,494	–	27,017	–	–	211,787
Unallocated liabilities							44,875
Total liabilities							<u>256,662</u>
Capital expenditure	<u>–</u>	<u>39,294</u>	<u>–</u>	<u>3,456</u>	<u>–</u>	<u>–</u>	<u>42,750</u>
Depreciation and amortisation	<u>164</u>	<u>22,495</u>	<u>–</u>	<u>2,579</u>	<u>–</u>	<u>–</u>	<u>25,238</u>
Loss on disposal of property, plant and equipment	<u>–</u>	<u>3,819</u>	<u>–</u>	<u>252</u>	<u>–</u>	<u>–</u>	<u>4,071</u>

	2006						Group HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Turnover	7,777	99,132	20,564	200,095	13,031	28,703	369,302
Segment result	<u>(2,705)</u>	<u>3,706</u>	<u>734</u>	<u>9,430</u>	<u>731</u>	<u>1,876</u>	13,772
Other gains – net							4,805
Finance costs							<u>(6,711)</u>
Profit before income tax							11,866
Income tax expense							<u>(3,156)</u>
Profit for the year							8,710
Minority interests							<u>(5,108)</u>
Profit attributable to equity holders of the Company							<u>3,602</u>

	2006						Group HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Japan HK\$'000	North America HK\$'000	European Union countries HK\$'000	Other Asian countries HK\$'000	
Segment assets	7,990	290,852	–	56,533	–	–	355,375
Unallocated assets							7,565
Total assets							<u>362,940</u>
Segment liabilities	5,437	120,974	–	43,348	–	–	169,759
Unallocated liabilities							44,967
Total liabilities							<u>214,726</u>
Capital expenditure	<u>4,614</u>	<u>47,101</u>	<u>–</u>	<u>1,227</u>	<u>–</u>	<u>–</u>	<u>52,942</u>
Depreciation and amortisation	<u>164</u>	<u>11,506</u>	<u>–</u>	<u>587</u>	<u>–</u>	<u>–</u>	<u>12,257</u>
(Loss)/gain on disposal of property, plant and equipment	<u>–</u>	<u>736</u>	<u>–</u>	<u>(63)</u>	<u>–</u>	<u>–</u>	<u>673</u>
(Reversal of allowance)/ allowance for doubtful debts	<u>–</u>	<u>(803)</u>	<u>–</u>	<u>571</u>	<u>–</u>	<u>–</u>	<u>(232)</u>

#### 4. FINANCE COSTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts wholly repayable within five years	6,628	3,007
Mortgage loan	109	92
Finance lease	43	28
Interest on convertible bonds	4,320	3,584
	<u>11,100</u>	<u>6,711</u>

#### 5. INCOME TAX EXPENSE

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

Shangsheng Electrics was exempted from 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 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 (2006: nil) for the subsidiaries operating in Hong Kong during the year ended 31st December 2007.

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current taxation		
– Canada corporation income tax	–	2,538
– China enterprise income tax	316	1,396
Under/(over) provision of China enterprise income tax in prior year	1,372	(1,517)
Deferred taxation	(3,392)	739
	<u>(1,704)</u>	<u>3,156</u>

## 6. EARNINGS PER SHARE

### (a) Basic

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

	2007	2006
(Loss)/profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	<u>(5,696)</u>	<u>3,602</u>
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>325,090</u>	<u>323,682</u>
Basic (loss)/earnings per share ( <i>HK cent per share</i> )	<u>(1.75)</u>	<u>1.11</u>

### (b) Diluted

Diluted earnings 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.

In addition, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in profit per share from continuing operations.

	2007	2006
(Loss)/profit used to determine diluted earnings per share ( <i>HK\$'000</i> )	<u>(5,696)</u>	<u>3,602</u>
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>325,090</u>	323,682
Effect of dilutive potential ordinary shares ( <i>'000</i> )	<u>495</u>	–
Weighted average number of ordinary shares for diluted earnings per share ( <i>'000</i> )	<u>325,585</u>	<u>323,682</u>
Diluted (loss) earnings per share ( <i>HK cent per share</i> )	<u>(1.75)</u>	<u>1.11</u>

## 7. DIVIDENDS

The Directors of the Company do not recommend the payment of a final dividend for the year ended 31st December 2007 (2006: nil).

## 8. TRADE AND NOTE RECEIVABLES

The majority of the Group's sales is an open account in accordance with terms specified in the contacts governing relevant transactions. At 31st December 2007, the ageing analysis of the Group's trade and note receivables was as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	64,217	43,548
31 – 60 days	23,148	29,072
61 – 90 days	10,089	12,278
91 – 180 days	6,915	6,796
181 – 360 days	3,355	2,434
Over 360 days	<u>1,173</u>	<u>1,685</u>
	<b>108,897</b>	95,813
Less: Allowance for doubtful debts	<u>(3,389)</u>	<u>(3,214)</u>
	<u><b>105,508</b></u>	<u>92,599</u>

## 9. TRADE AND NOTE PAYABLES

At 31st December 2007, the ageing analysis of the Group's trade and note payables was as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	51,944	40,187
31 – 60 days	23,538	27,490
61 – 90 days	17,642	18,931
91 – 180 days	7,324	4,155
181 – 360 days	504	648
Over 360 days	286	440
	<u>101,238</u>	<u>91,851</u>

## 10. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (a) Sales of goods

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Sales of goods		
– Sonavox Electronics (Suzhou Industrial Park) Company Limited ( <i>i and ii</i> )	<u>984</u>	<u>–</u>

Goods were sold on the basis of the price lists in force with non-related parties.

### (b) Purchases of goods

Purchases of goods		
– Sonavox Electronics (Suzhou Industrial Park) Company Limited ( <i>i and ii</i> )	<u>19,231</u>	<u>–</u>
– Asian Elite International Company Limited ( <i>i and ii</i> )	<u>10,256</u>	<u>–</u>

Goods were purchased on the basis of the price lists in force with non-related parties.

### (c) Key management compensation

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Salaries and other short-term employee benefits	<u>2,057</u>	<u>1,830</u>

(d) **Amounts due from related parties**

	2007	2006
	HK\$'000	HK\$'000
Trade receivables due from Asia Elite International Company Limited (i)	<u>172</u>	<u>160</u>
Due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, minority shareholder of China subsidiaries	<u>246</u>	<u>878</u>

*Notes:*

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

## **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 year.

### **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 China and indirectly wholly-owned by Mr. Yang Ching Yau, and Sonavox Electronics (Suzhou Industrial Park) Company Limited ("Sonavox Electronics"), a company incorporated in China and indirectly owned as to 65% by Mr. Yang Ching Yau and his family members, respectively. Pursuant to the Agreements, Sonavox Acoustics has agreed to purchase amplifier systems from Asian Elite, subwoofer and tweeter systems from Sonavox Electronics.

### **Directors and directors' service contracts**

In accordance with the articles of association of the Company, Mr. Yiu Chi Wah, Mr. Wong Kai Tung, Simon and Mr. Fan Chi Fai, Paul, will retire from office and, will be eligible to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive Directors of the Company are not appointed for specific contracted terms but are subject to retirement by rotation in accordance with the Company's articles of association.

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

### **Directors' and Chief Executives' interests or short positions in the shares or debentures**

As at 31st December 2007, 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**

<b>Name of Director</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of interest</b>
Mr. Yang Tsu Ying ( <i>Note</i> )	Corporate	Interest of a controlled corporation	240,000,000	73.83%
Mr. Yang Ching Yau ( <i>Note</i> )	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 31st December 2007, 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 31st December 2007, 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 31st December 2007, 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., 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 with private label, 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 September 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 2006 and 31st December 2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Exercise period	Subscription price HK\$
Mr. Yang Tsu Ying	2,000,000	-	-	-	28th June 2005 to 27th June 2015	0.345
Mr. Yang Ching Yau	2,000,000	-	-	-	28th June 2005 to 27th June 2015	0.345

### **Directors' interest in contracts**

Save as disclosed in note 10 to the consolidated financial statements, 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 year.

### **Management contracts**

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

### **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. Wong Kai Tung, Simon\*

\* *Independent non-executive Director*

In the audit committee meeting held on 15th March 2008, the financial results and the financial position, major accounting and internal auditing issues of the Group for the year ended 31st December 2007 were reviewed and reported to the Board of Directors.

### **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 independent non-executive Director 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. Wong Kai Tung, Simon\*

\* *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. Wong Kai Tung, Simon\*  
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 year ended 31st December 2007.

## **Corporate Governance Practices and Procedures**

The Group believes that enhancing 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 year, the Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

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. Wong Kai Tung, Simon, and Mr. Fan Chi Fai, Paul.

On behalf of the Board,  
**Yang Tsu Ying**  
*Chairman*

Hong Kong, 17th March 2008

*This announcement will appear and remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's websites at [www.sonavox.com.hk](http://www.sonavox.com.hk).*