



**SONAVOX INTERNATIONAL HOLDINGS LIMITED**

**上聲國際控股有限公司**

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

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**THIRD QUARTERLY REPORT 2002**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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*This report, for which the Directors of Sonavox International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Sonavox International Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## CONTENTS

Business Review and Prospect	2
Third Quarterly Financial Results	9
Other Information	16

## Business Review and Prospect

(Amounts expressed in Hong Kong dollars)

### TO OUR SHAREHOLDERS

The Board of Directors ("the "Board") of Sonavox International Holdings Limited (the "Company") herein announce the unaudited consolidated financial results of the Company and its subsidiaries (together the "Group" or "Sonavox") for the nine months ended 30th September, 2002.

### FINANCIAL REVIEW

Following to the impetus of the rapid development of the automobile industry in the PRC, the consumption of loudspeaker systems for automobiles has surged, providing an optimal environment for Sonavox. During the nine months ended 30th September, 2002, the Group achieved a turnover of approximately \$53,447,000, representing a growth of approximately 33% as compared to the same period last year. Profit attributable to shareholders increased by approximately 7% to approximately \$3,385,000. The gross profit margin surged to approximately 33% as compared to approximately 28% during the period under review, reflecting the positive effects of the Group's internal control systems and cost management.

During the past nine months, the Group has been actively exploring overseas markets with their promising profits and prospects. Geographic breakthroughs were achieved in Japan, Europe and the United States, generating revenues of approximately \$12,935,000, which represents a growth of approximately 19 times as compared to the corresponding period in financial year 2001.

The total expenses of the Group for the nine months ended 30th September, 2002 was approximately \$45,383,000, representing approximately 30% increase when comparing to that of the same corresponding period in the financial year 2001. The increase was mainly attributable to a higher level of business operations during the nine-month period ended 30th September, 2002.

### LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

During the nine-month period ended 30th September, 2002, the Group's operations were mainly carried out in the PRC and were financed mainly by the cash revenue generated from its operating activities and partly from short-term bank loans and use of proceeds from listing. As at 30th September, 2002, the Group had cash at bank and in

**Business Review and Prospect**

(Amounts expressed in Hong Kong dollars)

hand of approximately \$41,974,000. The Group achieved better performance in terms of its liquidity ratios with current ratio of approximately 2.96 and gearing ratio of approximately 0.42 as at 30th September, 2002, compared with approximately 1.06 and 1.94 respectively as at 31st December, 2001. The gearing ratio was calculated based on the total liabilities over the shareholders' equity as at the balance sheet dates. As at 30th September, 2002, the Group had total liabilities amounted to approximately \$23,289,000 including short-term bank loans of approximately \$7,639,000. Such short-term bank loans bore interest charges at rates ranging from 3.5% to 4.5% per annum with repayment within one year. Barring unforeseen circumstances, and taking into account the profitability of the last nine months and the current level of business activities as well as the available banking facilities, the Directors and senior management are confident that the Group is generating sufficient funds to meet its daily business operation requirements as well as to finance new audio product development.

The Group adopts conservative treasury policies in managing its cash and financial matters. The Group's treasury activities are mainly centralised and carried out in Hong Kong. Currently, cash at bank and in hand is placed on deposits or interest-bearing bank accounts denominated in Renminbi ("RMB"), Hong Kong dollars and US dollars. The Group's liquidity and financing arrangements are reviewed regularly by the Directors and senior management.

**CAPITAL COMMITMENT AND CONTINGENT LIABILITIES**

The Group did not have any significant capital commitment and contingent liabilities as at 30th September, 2002.

**MATERIAL ACQUISITION/DISPOSALS AND SIGNIFICANT INVESTMENT**

Saved as disclosed in the subsection headed "Group reorganisation" in the section headed "Statutory and general information" in Appendix IV to the prospectus dated 15th July, 2002, the Group had no material acquisitions, disposals and investment. At present, the Group has no future plan for material acquisitions or disposal of significant investments other than those set out in the section headed "Future plans and business objectives" in the prospectus.

## **Business Review and Prospect**

(Amounts expressed in Hong Kong dollars)

### **EXPOSURE ON EXCHANGE RATE FLUCTUATION**

Most of the Group's purchases and expenses were denominated in RMB and Hong Kong dollars and the Group's revenue was denominated in RMB, Hong Kong dollars and U.S. dollars during the period under review. Therefore, the Group was not exposed to any significant fluctuations in exchange rates and related hedges during the period under review.

### **BANKING FACILITIES AND PLEDGE OF ASSETS**

As at 30th September, 2002, the Group had aggregate banking facilities of approximately \$14,145,000 for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately \$6,506,000. These facilities were secured by the land use rights and building ownership rights owned by certain PRC subsidiaries of the Group together with a corporate guarantee given by a PRC subsidiary. The net book values of such land use rights and building ownership rights was approximately \$24,012,000 as at 30th September, 2002.

### **BUSINESS REVIEW**

Sales of automobiles in the PRC in the first eight months of 2002 increased by approximately 46% to 716,102 units as compared to the same period last year. Shanghai Volkswagen, one of the Group's major customers, was the market share leader for the period, capturing approximately 23% of market share. As a result of increase in demand for automobiles in the PRC, sales of loudspeaker systems for automobiles increased by approximately 61%, reaching approximately \$43,145,000. Initial batch of orders were also delivered to Fiat Auto S.P.A during the review period. With regard to home theatre loudspeaker systems, the Group's strategy is to focus on products which enjoy higher profit margins. As a result, turnover of loudspeaker systems for home theatres dropped slightly to approximately \$10,302,000. However, as the peak season for the industry traditionally falls from September and onwards, and in view of orders on hand, the Group is confident that sales will pick up quickly in the final quarter of year 2002. During the nine-month period ended 30th September, 2002, Shanghai General Motors, Shanghai Volkswagen, Dongfeng-Citroën, Kenwood and Onkyo contributed most of the sales orders to the Group.



## Business Review and Prospect

(Amounts expressed in Hong Kong dollars)

Sonavox's strong abilities in producing quality products have always attracted well-known clients. During the period under review, the Group successfully obtained OEM orders from LG Electronics Inc. ("LG"), a major global player in electronics and telecommunications, to manufacture top quality loudspeaker systems for home theatres. This cooperation not only demonstrates that Sonavox's products fulfil LG's stringent quality standards, but also the Group's commitment to expand its business into other geographical markets.

Sonavox fully appreciates the value of professional services and is therefore constantly rolling out individual training programs to upgrade managerial and technical skills. These training programs aim to improve employees' technical skills and enhance their abilities in providing quality services to customers. Barring unforeseen circumstances, management of Sonavox anticipates that the Group will successfully obtain ISO-14000 and ISO-16949 certifications by the end of this year.

### NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31st December, 2001 and 30th September, 2002 is set out below:

	As at 30th September, 2002	As at 31st December, 2001
Management and administration	63	73
Sales and marketing	18	10
Manufacturing/Operations	543	585
Research and development	39	40
Quality assurance/quality control	58	69
Finance and accounting	11	10
	<b>732</b>	<b>787</b>

**Business Review and Prospect**

(Amounts expressed in Hong Kong dollars)

**REMUNERATION OF EMPLOYEES AND POLICIES**

The Group recognises that its staff is among the Group's most important assets. With the overall objective of providing competitive salary packages, the employees' salary level will be adjusted in close association with the individual's performance, qualifications and experience as well as the labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be rewarded to eligible employees by the assessment of individual's performance and by reference to the Group's business performance.

The Group has maintained good labour relations and does not experience any disruption of its operations due to major labour disputes. In addition to the remuneration as mentioned above, the Group also provides fringe benefits which complies with the relevant laws and regulations of the PRC and Hong Kong in relation thereto including contributions to society security scheme of the PRC, contribution to the Mandatory Provident Fund Scheme of Hong Kong and staff training programs to eligible employees.

Total remuneration incurred for the nine months ended 30th September, 2002 increased to approximately \$6,837,000 (2001: \$6,046,000) due to the fact that the Group hired certain professional staff who were remunerated a higher salaries level during the nine-month period ended 30th September, 2002. The Directors had received remuneration of approximately \$207,000 during the nine months ended 30th September, 2002. The Directors had not received any remuneration during the same corresponding period of financial year 2001 as the Directors considered that it was beneficial for the Group to retain more working capital for the expansion of the Group's business during the nine-month period ended 30th September, 2001. The Company has not granted any share option to any of its Directors and employees for each of the nine months ended 30th September, 2001 and 2002. The principal terms of the share option scheme are summarised under the sub-section headed "Share Option Scheme" in Appendix IV to the Company's prospectus dated 15th July, 2002.



## Business Review and Prospect

(Amounts expressed in Hong Kong dollars)

### TRAINING SCHEMES

The Group provides on-going training programs for its employees in order to keep them abreast of the latest market trends and new technologies of loudspeaker systems as well as to enhance their knowledge on new requirements of international standards. The Group also provides different training programs to its senior management in order to update their management skills and techniques.

### PROSPECT

In spite of the global economic slowdown, the PRC will continue to be one of Asia's best-performing economies fueled by buoyant consumer spending and its recent entry to the World Trade Organisation ("WTO"). Among the prospering industrial sectors, the PRC's government authorities predict that the demand for automobiles will continue to experience substantial growth, increasing by not less than 50% from 2002 to 2005. To capture this lucrative market, Sonavox will continue to fully utilise its strong R&D capabilities to innovate new loudspeaker systems models for automobiles. The Group will also work to broaden its client base by attracting potential enterprises who are among the leading automobile industry players in the PRC and overseas.

Meanwhile, Sonavox will transfer its successful business model for its automobile loudspeaker systems to its newly developed loudspeaker systems for home theaters, to hasten its development. Sonavox's loudspeaker systems for home theaters, which have already established a strong reputation among clients, who include SVA, Kenwood and LG, among others, have laid the solid foundations for future growth. Sonavox is fully confident that the performance of its loudspeaker system for home theatres will greatly improve.

With its unremitting efforts in the development of new products, Sonavox plans to introduce thin-profile loudspeakers, commercial public announcement loudspeaker systems used in department stores, government buildings, airports and train stations and professional loudspeaker systems used in discos, music halls and theatres. This diverse product mix is expected to generate stable revenues for the Group.

**Business Review and Prospect**

(Amounts expressed in Hong Kong dollars)

Although Sonavox has made tremendous strides in its geographic expansion, the Group is not yet satisfied. Sonavox will continue to consolidate sales in its existing markets whilst at the same time exploring new markets. Furthermore, in view of Sonavox's commitment to quality and professionalism, more training programs will be introduced to enhance the Group's technical know-how as well as its managerial capabilities.

Sonavox is committed to enhancing shareholder value. Looking ahead, building on its competitive edge, Sonavox is surmounting challenges in its mission to become a leading automobile and home theatre loudspeaker systems manufacturer in the PRC and overseas.

### Third Quarterly Financial Results

(Expressed in Hong Kong Dollars)

The unaudited consolidated financial results of the Group for the nine months ended 30th September, 2002 and comparative figures for the corresponding period in the financial year 2001 are as follows:

	Note	For the three months ended 30th September,		For the nine months ended 30th September,	
		2002 \$'000 (Unaudited)	2001 \$'000 (Unaudited)	2002 \$'000 (Unaudited)	2001 \$'000 (Unaudited)
Turnover	3	22,152	21,803	53,447	40,156
Cost of sales		(14,333)	(15,720)	(35,663)	(28,935)
Gross profit		7,819	6,083	17,784	11,221
Other revenue		—	—	50	182
Selling and distribution expenses		(660)	(620)	(2,438)	(1,456)
General and administrative expenses		(1,988)	(846)	(5,467)	(3,730)
Profit from operations		5,171	4,617	9,929	6,217
Finance costs		(155)	(89)	(422)	(214)
Profit before taxation	4	5,016	4,528	9,507	6,003
Taxation	5	(738)	(373)	(1,393)	(627)
Profit before minority interests		4,278	4,155	8,114	5,376
Minority interests		(3,063)	(1,706)	(4,729)	(2,222)
Profit attributable to shareholders		1,215	2,449	3,385	3,154
Earnings per share — Basic (cents)	7	0.40	0.69	1.29	1.31

**Notes:**

(Expressed in Hong Kong dollars)

**1. GROUP REORGANISATION**

The Company was incorporated in the Cayman Islands on 22nd October, 2001 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the GEM since 19th July, 2002.

On 8th July, 2002, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation"). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the unaudited financial results of the Group for the nine-month periods ended 30th September, 2001 and 2002 have been prepared as if the current group structure had been in existence throughout each of the periods under review, rather than from the date on which the Reorganisation was completed.

**2. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

The unaudited consolidated financial results have been prepared in accordance with Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Rules Governing the Listing of Securities of the GEM. The preparation of unaudited consolidated financial results requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The accounting policies adopted in preparing the unaudited consolidated financial results of the Group for the three-month period and the nine-month period ended 30th September, 2002 are consistent with those followed in the accountants' report as set out in the prospectus of the Company dated 15th July, 2002.

**Notes:**

(Expressed in Hong Kong dollars)

**3. TURNOVER**

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances and value added taxes during the nine-month period.

Turnover consisted of:

	For the nine months ended 30th September,			
	2002 \$'000 (unaudited)	%	2001 \$'000 (unaudited)	%
<b>By geographical location (a)</b>				
The PRC	40,512	76%	39,496	98%
Japan	7,120	13%	—	—
Europe	3,227	6%	226	1%
United States	2,588	5%	—	—
Taiwan	—	—	434	1%
	<b>53,447</b>	<b>100%</b>	<b>40,156</b>	<b>100%</b>
<b>By products (b)</b>				
Loudspeaker systems for automobiles	43,145	81%	26,754	67%
Loudspeaker systems for home theatres	10,302	19%	13,402	33%
	<b>53,447</b>	<b>100%</b>	<b>40,156</b>	<b>100%</b>

- (a) Turnover by geographical location is determined on the basis of the destination of delivery of goods for the Group's sales of loudspeaker systems and location of the relevant activities. No analysis of profit before taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above. No segmental information analysed by geographical location for the same corresponding period in year 2001 was separately presented as the Group's major market was in the PRC.

**Notes:**

(Expressed in Hong Kong dollars)

- (b) No segmental information analysed by principal activity is separately presented as the Group's segment revenue, expenses, results, assets and liabilities are primarily attributable to the manufacture and sales of loudspeaker systems.

**4. PROFIT BEFORE TAXATION**

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the nine-month periods ended 30th September, 2001 and 2002. Depreciation and amortisation of approximately \$3,776,000 and approximately \$4,072,000 were provided for properties, plant and equipment during the nine-month periods ended 30th September, 2001 and 2002 respectively.

**5. TAXATION**

During the nine-month periods ended 30th September, 2001 and 2002, all of the Group's profit was derived from subsidiaries established and operating in the PRC. These subsidiaries are subject to the PRC enterprise income tax. Pursuant to the relevant laws and regulations in the PRC, all PRC subsidiaries of the Group which comprised Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics"), Suzhou Shangsheng Enterprises Co., Ltd. ("Shangsheng Enterprises") and Sonavox Acoustics, were entitled to full exemption from PRC enterprises income tax for two years commencing from the first profit-making year followed by a 50% reduction of PRC state enterprises income tax. The PRC enterprises income tax rates applicable to the Group's PRC subsidiaries were 27% (24% state income tax plus 3% local income tax). The state income tax rate of 24% applies to the foreign investment enterprises established in Suzhou which is one of the Coastal Open Economic Regions. The first profit-making year of Shangsheng Electrics was the year 1996 and the tax exemption period expired in the year 1997. For the year ended 31st December, 2000, Shangsheng Electrics was taxed at 12%, on the assessable income, a reduced income tax rate of 50%. Pursuant to an approval received from the local tax authorities on 17th January, 2002, Shangsheng Electrics would be entitled to a 50% income tax reduction for three years from 2001 to 2003 as being qualified as a "new and high technology enterprise". Renewal of this preferential tax treatment will be subject to review by the relevant accreditation authority every two years. The first profit-making year of Shangsheng Enterprises was the year 1999 and the exemption period expired in the year 2000. Shangsheng



**Notes:**

(Expressed in Hong Kong dollars)

Enterprises would be taxed at the reduced income tax rate of 12% for three years starting from the year ended 31st December, 2001. Sonavox Acoustics had not yet commenced the first profit-making year.

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong during the nine-month period ended 30th September, 2002 and the same corresponding period of financial year 2001.

There was no significant unprovided deferred taxation in respect of the period.

**6. INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the nine months ended 30th September, 2002 (2001: Nil).

**7. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the three-month period and the nine-month period ended 30th September, 2002 respectively were based on the unaudited profit attributable to shareholders of approximately \$1,215,000 (2001: \$2,449,000) for the three-month period ended 30th September, 2002 and approximately \$3,385,000 (2001: \$3,154,000) for the nine-month period ended 30th September, 2002 and on the weighted average number of approximately 303,478,000 shares (2001: 240,000,000 shares) in issue during the three-month period ended 30th September, 2002 and approximately 261,392,000 shares (2001: 240,000,000) in issue during the nine-month period ended 30th September, 2002.

**Notes:**

(Expressed in Hong Kong dollars)

**8. MOVEMENTS OF RESERVES**

The movements of reserves for the nine-month periods ended 30th September, 2001 and 2002 are as follows:

	Share premium \$'000	Capital reserve \$'000	Statutory reserves \$'000	Retained earnings \$'000	Total \$'000
Balance as at 1st January, 2001 (Audited)	—	—	2,841	8,552	11,393
Profit for the nine-month period	—	—	—	3,154	3,154
Cumulative translation adjustments	—	—	(30)	—	(30)
Balance as at 30th September, 2001 (Unaudited)	—	—	2,811	11,706	14,517
Balance as at 1st January, 2002 (Audited)	—	—	3,227	14,215	17,442
Profit for the nine-month period	—	—	—	3,385	3,385
Issuance of shares	39,200	—	—	—	39,200
Share issuance expenditures	(8,024)	—	—	—	(8,024)
Capitalisation of share premium	(2,400)	—	—	—	(2,400)
Effect of the Reorganisation (Note 1)	—	2,541	—	—	2,541
Cumulative translation adjustments	—	—	(36)	—	(36)
Balance as at 30th September, 2002 (Unaudited)	28,776	2,541	3,191	17,600	52,108

**Notes:**

(Expressed in Hong Kong dollars)

**9. COMPARATIVE FIGURES**

For the three-month period and the nine-month period ended 30th September, 2002, the unaudited consolidated financial results included the results of the companies comprising the Group, using the basis of merger accounting, as if the Group had been in existence since 1st January, 2002. In addition, certain comparative figures have been reclassified to conform to the current period's presentation.

## Other Information

### DIRECTORS' INTEREST IN SHARES

As at 30th September, 2002, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") are as follows:

Director	Other interests	Total interests
Mr. Yang Tsu Ying (Note)	240,000,000	240,000,000
Mr. Yang Ching Yau (Note)	240,000,000	240,000,000

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.

### RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES

During the nine-month period ended 30th September, 2002, none of the Directors nor the employees of the Group was granted options to subscribe for shares. As at 30th September, 2002, none of the Directors nor the employees of the Group had any rights to acquire shares.

### SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002, the register of interests is kept by the Company under Section 16(1) of the SDI Ordinance showing that the following parties are directly or indirectly interested in 10% or more of the nominal value of the shares of the Company:

Name	Number of ordinary shares held	Percentage of share holding
Newood Consultancy Limited (Note)	240,000,000	75%

Note: 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.

## Other Information

Saved as disclosed above, the Directors are not aware of any other person having an interest in the issued shares capital representing 10% or more of the issued share capital of the Company.

### SPONSOR'S INTERESTS

As at 30th September, 2002, the Company's sponsor, Deloitte & Touche Corporate Finance Ltd ("Deloitte"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

Pursuant to the sponsor's agreement dated 19th July, 2002 entered into between the Company and Deloitte, Deloitte has received and will receive fees for acting as the Company's retained sponsor for the period from 19th July, 2002 to 31st December, 2004.

### PURCHASE, SALE OR REPURCHASE OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the nine-month period ended 30th September, 2002.

### 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 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 sales of loudspeakers used in automobiles, 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. Details of the deed of undertaking dated 15th July, 2002 are set out in sub-section headed "Competition with the Private Group" in the section headed "Business" to the prospectus of the Company dated 15th July, 2002.

## Other Information

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.

## AUDIT COMMITTEE

The Company established an audit committee on 8th July, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 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 Company.

The audit committee comprises Mr. Yiu Chi Wah and Mr. Wong Kai Tung, Simon who are the independent non-executive Directors. Mr. Wong Kai Tung, Simon is the chairman of the audit committee.

In the audit committee meeting held on 9th November, 2002, the unaudited consolidated financial results, major accounting and internal auditing issues of the Group for the nine months ended 30th September, 2002 were reviewed and reported to the Board of Directors.

## BOARD PRACTICES AND PROCEDURES

During the nine months ended 30th September, 2002, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the Board  
Sonavox International Holdings Limited  
Yang Tsu Ying  
*Chairman*

Hong Kong, 11th November, 2002