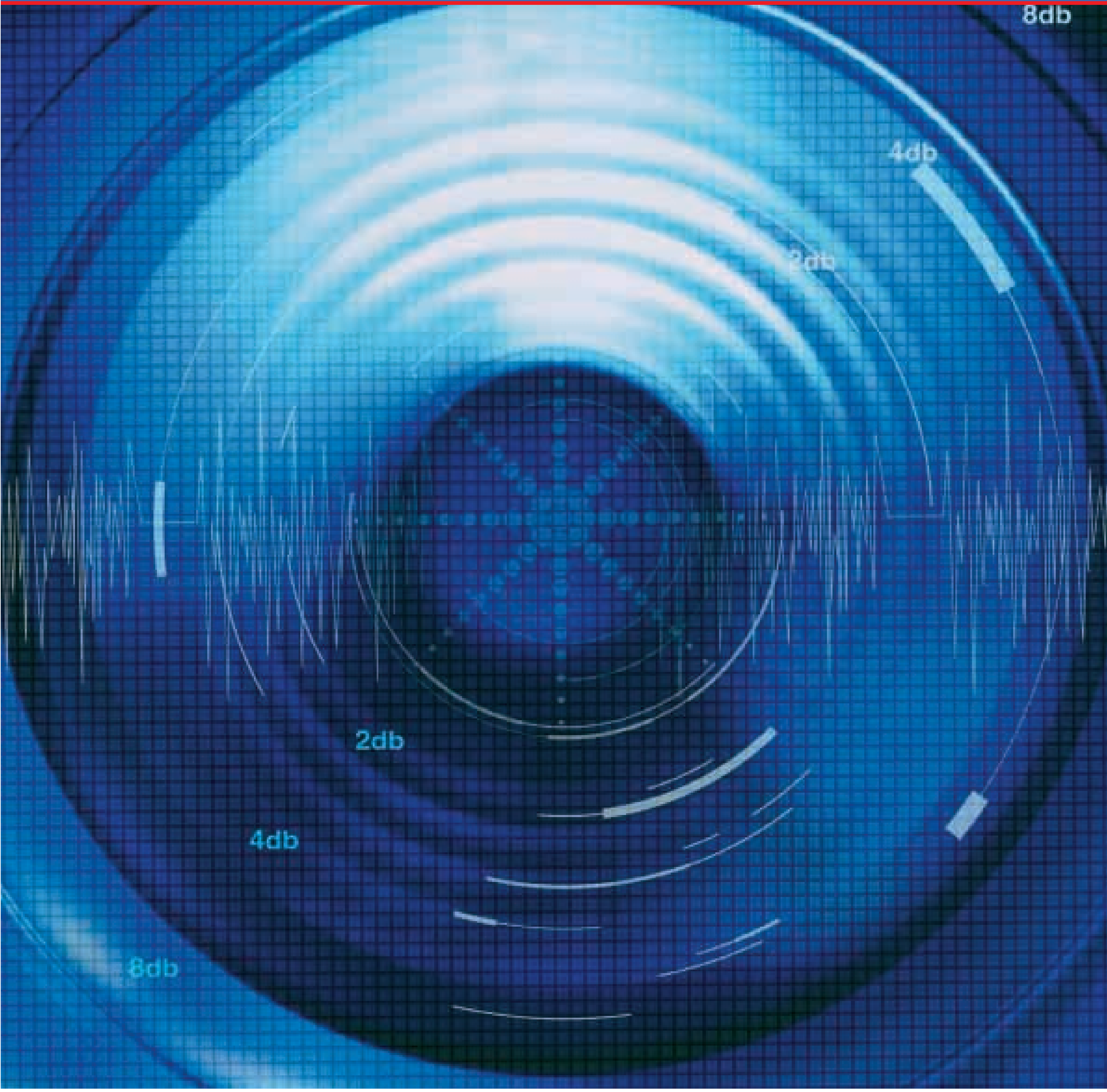
SONAVOX

SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT **2002**

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

Contents

2	Corporate Information
3	Business Review and Prospects
8	Directors and Senior Management
9	Financial Summary
11	Report of the Directors
18	Comparison of Business Objectives with Actual Business Progress
19	Auditors' Report
20	Consolidated Profit and Loss Account
21	Consolidated Balance Sheet
22	Balance Sheet
23	Consolidated Statement of Changes in Equity
24	Consolidated Cash Flow Statement
25	Notes to the Accounts
49	Notice of Annual General Meeting

Corporate Information

DIRECTORS

Executive Directors
YANG Tsu Ying
YANG Ching Yau

Independent non-executive Directors

YIU Chi Wah
WONG Kai Tung, Simon

COMPANY SECRETARY

POON Lai Yin, Michael, *AHKSA, CPA (Aust.)*

QUALIFIED ACCOUNTANT

POON Lai Yin, Michael, *AHKSA, CPA (Aust.)*

AUDIT COMMITTEE

YIU Chi Wah
WONG Kai Tung, Simon

AUTHORISED REPRESENTATIVES

YANG Ching Yau
POON Lai Yin, Michael

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1702
17th Floor
Podium Plaza
No. 5 Hanoi Road
Tsimshatsui
Kowloon
Hong Kong

COMPLIANCE OFFICER

YANG Ching Yau

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
28th Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

SPONSOR

Deloitte & Touche Corporate Finance Ltd

AUDITORS

Messrs PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking
Corporation Limited
Bonham Strand Branch
Mandarin Building
No. 34–45B Bonham Strand East
Sheung Wan
Hong Kong

GEM STOCK CODE

8226

WEBSITE OF SUBSIDIARIES

www.chinasonavox.com

TO OUR SHAREHOLDERS

I am pleased to present the first audited consolidated annual results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the twelve months ended 31st December 2002 since its listing on the Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group's operations over the past year need to be set in the context of two very different sets of external market conditions. With the enhancement of both purchasing appetite and purchasing power in recent years, the automobile industry in the People's Republic of China ("PRC" or "Mainland China") experienced continued rapid growth, flourishing in 2002. Unit shipments for our five largest customers each increased more than 9% over the previous year. Benefiting from this positive business environment together with our commitment to explore overseas markets, our automobile loudspeaker systems business achieved encouraging results in both turnover and profit, further consolidating our strong foundations in this sector.

At the same time, the year saw increasing competition within the consumer product markets. Leading home theatre system players experienced tremendous pressure on their selling prices. As an OEM/ODM manufacturer, our home theatre loudspeaker systems business was naturally not immune to this competition, Despite the tough environment, we triumphed over other strong candidates, successfully manufactured and delivered loudspeaker systems for LG Electronics, one of the famous worldwide electronics and telecommunications giant, the success fully demonstrates the excellence of our product quality. Moreover, the Group also committed in exploring overseas market that will not only widen the customer base but also identify new business opportunities in overseas market.

The successful listing of Sonavox on 19th July 2002 marked an important chapter in the development of Sonavox, with a continuing round of opportunities and challenges. Although profits fall for the year 2002 due to the challenging market environment of the home theatre industry and the increasing operating costs in maintaining the listing status, our management approached their task with confidence in identifying areas of future growth and improvements, readjusting and reforming the Group's strategies for long-term growth and maintenance of market share in Mainland China and overseas.

FINANCIAL REVIEW

Triggered by the growth of the automobile industry, the Group achieved a turnover of approximately HK$76,656,000, representing growth of approximately 27% for the year ended 31st December 2002. The gross profit margin increased by approximately 4% from approximately 30% to 34%. During the year, the Group also actively explored overseas markets with geographical breakthroughs in Japan, Europe and the United States. Revenue from these markets surged 6.2 times from approximately HK$2,381,000 in 2001 to approximately HK$17,108,000 in 2002. Among them, Japan contributed the largest portion, accounting for approximately 12% of the Group's total turnover.

The Group's total expenses in 2002 increased by approximately 30% from approximately HK$50 million to approximately HK$65 million. The increase was mainly attributable to the higher level of business operations during the year as well as approximately HK$2 million additional expenses which were necessary as a result of becoming a listed company. Affected by this increase in expenses, profit attributable to shareholders decreased to approximately HK$5,349,000. However, excluding these listed company compliance expenses, the Group reported approximately 18% increase in profit from approximately HK$6,049,000 to HK$7,112,000.

Business Review and Prospects

Liquidity, financial resources and treasury policies

During 2002, the Group's major business operations took place in Mainland China, being financed mainly by the cash revenue generated from operating activities and partly from short-term bank loans. As at 31st December 2002, the Group had cash and bank deposits of approximately HK$41,492,000. The Group achieved better performance in terms of liquidity ratios with a current ratio of approximately 2.6 and gearing ratio of approximately 0.46 as at 31st December 2002, compared with approximately 1 and 2.08 respectively as at 31st December 2001. The gearing ratio was calculated based on total liabilities over shareholders' equity as at the balance sheet dates. As at 31st December 2002, the Group had total liabilities amounting to approximately HK$29,597,000 including short-term bank loans of approximately HK$6,224,000 bearing interest at rates ranging from 4.6% to 5.8% 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 being centralised and carried out in Hong Kong. Currently, cash and bank deposits, including net proceeds from the completion of the placing in July 2002, is placed in interest-bearing bank accounts denominated in Hong Kong dollars. The Group's liquidity and financial arrangements are reviewed regularly by the directors of the Company ("Directors") and senior management.

Capital commitment and contingent liabilities

Other than commitments under operating lease disclosed in note 24 to the accounts, the Group did not have any significant capital commitment and contingent liabilities as at 31st December 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 of the Company 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.

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 year. Therefore, the Group was not exposed to any significant fluctuations in exchange rates and related hedges during the year.

Banking facilities and pledge of assets

As at 31st December 2002, the Group had aggregate banking facilities of approximately HK$14,145,000 for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK$7,921,000. These facilities were secured by the land and buildings owned by certain PRC subsidiaries of the Group together with a corporate guarantee given by a PRC subsidiary. The net book value of land and buildings was approximately HK$37,720,000 as at 31st December 2002.

Dividend

The Directors recommend the payment of a final dividend of HK0.8125 cent per share, totaling HK$2,600,000 for the year ended 31st December 2002 (2001: Nil).

BUSINESS REVIEW

The automobile market in Mainland China continued its rapid growth in 2002. Unit shipments topped approximately 1,060,000 units, posting a stunning approximately 56% jump in sales compared with that in 2001. In addition, Shanghai Volkswagen, one of the Group's major clients, captured approximately 27% of the market in 2002, and was ranked first in the marketplace. Stimulated by these factors, the Group's automobile loudspeaker systems business, reached approximately HK$76 million in turnover, representing growth of approximately 27%.

During the year, the Group successfully widened the customer base by securing contracts from Jiangsu Nanya Auto Co., Ltd., Jinbei GM Automotive Co. Ltd. in Mainland China and Fiat Auto S.P.A. in Italy. In addition, Shanghai General Motors and Dongfeng-Citroën placed additional sales orders, which acted as a catalyst to the growth of this business segment.

To further accelerate growth and consolidate market presence overseas, the Group established a new service center in Italy, equipped with technical liaison and warehousing centers, responsible for providing customers with after-sales services and just-in-time goods delivery. From this newly developed service centre, additional revenue of approximately HK$5 million is expected to be generated for the coming year which represent a 10 times increase in the sale of loudspeaker systems in Italy.

Despite the Group experienced a hard time in the home theatre loudspeaker systems segment due to the severe competition in the market, the Group worked hard to consolidate the existing client base and to explore new business opportunities in overseas market by manufacturing and selling advanced loudspeaker systems to renowned customers in U.S. and Italy during the year. Furthermore, with the ability to manufacture quality loudspeaker systems for home theatres, the Group manufactured loudspeaker systems for LG Electronics Inc., a major global player in electronics and telecommunications.

Sonavox is acutely aware of the importance of innovation and technology. During the year, there are more than 80 types of loudspeaker systems have been launched by the Group. In addition, the development of loudspeaker systems for the Sail automobile model manufactured by Shanghai General Motors in June 2002 was selected by the Science and Technology Commission of Jiangsu Province as a Torch Project for the PRC. In this project, Sonavox was granted an unsecured technology loan facility of RMB5 million (equivalent to approximately HK$4,760,000) by the local branch of a PRC bank. Once again, such financial support demonstrates the Group's excellence in research and development.

Further reinforcing Sonavox's R&D capabilities, the Group appointed Mr. Dave Clark as an independent consultant. With over 30 years of experience in the audio industry, Mr. Clark will contribute his expertise and provide advices to the Group on the development of advanced loudspeaker systems for automobiles and home theatres, as well as advising on the Group's future expansion.

Turning to quality standards, the Group has received training and is conducting examinations and evaluation for ISO 14000 and ISO/TS 16949 quality certifications. Barring unforeseen circumstances, it is expected that Sonavox will obtain these certifications before June 2003.

Number of employees

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

	2002	2001
Management and administration	**42**	73
Sales and marketing	**17**	10
Manufacturing and operations	**560**	585
Research and development	**36**	40
Quality assurance and quality control	**70**	69
Finance and accounting	**10**	10
Total	**735**	787

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 programmes to eligible employees.

Total remuneration incurred for the year ended 31st December 2002 increased to approximately HK$11,229,000 (2001: HK$8,331,000) due to the fact that the Group hired certain professional staff who were remunerated a higher salaries during the year ended 31st December 2002. The Directors had received remuneration of approximately HK$416,000 during the year ended 31st December 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 year ended 31st December 2001. The Company has not granted any share option to any of its Directors and employees for each of the years ended 31st December 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.

Training schemes

The Group provides on-going training programmes 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 quality standards. The Group also provides difference training programmes to its senior management in order to update their management skills and techniques.

BUSINESS PROSPECTS

According to the Tenth Five-year plan, China's annual automobile demand is predicted to rise from about 2 million in 2000 to a total of approximately 3.1 million by 2005, representing an annual growth rate of approximately 11%. It is expected that by 2004, the demand for sedans in Mainland China will increase by more than 50% compared to the current figure. To capture the lion's share of this market, Shanghai Volkswagen Co. Ltd., one of the Group's major customers, plans to sell approximately 600,000 cars in Mainland China in 2003, a 17% leap from 2002. To meet this continuing and increasing demand, the Group plans to expand its production facilities in 2003.

Apart from the PRC market, our management believes that Europe is another market with exponential growth potential. Leveraging the long-term relationships with a number of European automobile manufacturers in Mainland China, Sonavox will further extend its geographical coverage to Europe.

The Group is taking a proactive approach in dealing with the tough market environment in the home theatre industry, and it intends to implement a number of measures to increase cost-effectiveness and profitability over the coming year. Cost structure of each home theatre loudspeaker system will be reviewed to maximise cost-effectiveness. In addition, the Group will form strategic alliances with well-known audio manufacturers to further consolidate its market position. Feasibility studies and research works for new advanced loudspeaker products with higher profit margins, such as thin-profile loudspeakers, digital-ready loudspeakers, commercial public announcement loudspeaker systems (PA) used in department stores, government buildings, airports and train stations and professional loudspeaker systems used at discos, music halls and theatres will be carried out in accordance with the Group's strategic plan.

CONCLUSION

In conclusion, I would like to thank our customers, suppliers, bankers, investors and business partners for their continued trust and support. I would also like to extend my thanks to all our staff for their hard work and significant contribution to the Group in the past year. We are determined to pursue growth in the future, and aim to bring in better returns for our shareholders.

Yang Tsu Ying
Chairman

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yang Tsu Ying, aged 68, is the chairman of the Company and one of the founders of the Group. He has over 25 years of experience in manufacturing and trading of loudspeaker systems in overseas markets and over 10 years of experience in manufacturing and trading of loudspeaker systems in Mainland China. Mr. Yang is responsible for the development of the overall corporate policy and strategies as well as overseeing the Group's operation management.

Mr. Yang Ching Yau, aged 33, is an executive Director and one of the founders of the Group. He has over 11 years of experience in the sales, engineering, marketing and manufacturing of loudspeakers. Mr. Yang is responsible for the operations and corporate finance of the Group. He is the son of Mr. Yang Tsu Ying.

Independent non-executive Directors

Mr. Yiu Chi Wah, aged 38, is an independent non-executive Director. Mr. Yiu has over 10 years of experience in finance and investment advisory affairs. He holds a bachelor's degree in arts with National Taiwan University in Taiwan and was a dealing director and an investment adviser registered under the Securities Ordinance of Polaris Securities (Hong Kong) Limited. Mr. Yiu is a director of Polaris Finance Company Limited.

Mr. Wong Kai Tung, **Simon**, aged 36, is an independent non-executive Director. Mr. Wong is a director of VC CEF Capital Limited and is responsible for corporate finance advisory services in Mainland China. Mr. Wong has over 10 years of corporate and investment banking experience with major international banks. Mr. Wong holds a bachelor's degree (Honours) in arts from the University of Hong Kong and a post-graduate certificate in Hong Kong laws from the City University of Hong Kong.

SENIOR MANAGEMENT

Mr. Zhou Jian Ming, aged 43, is the general manager of the Group. He is responsible for the general administration of the Group. He obtained a master's degree in business administration from Nanjing University, the PRC in 2001, and has extensive experience in enterprise management with over 10 years of experience in the production management of loudspeakers. Mr. Zhou has worked for Wuxian Radio Components First Factory (吳縣無綫電元件一廠) and was responsible for corporate administration works, sales and marketing activities and monitoring the research and development works.

Mr. Pan Hui Hua, aged 46, is the production manager of the Group. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over 15 years of experience in the development and production of loudspeaker systems. Mr. Pan had worked for Likou Town Government Industrial Co. ("LTGIC") (蠡口鎮政府工業總公司) as manager and was responsible for monitoring the operations of factories under the control of LTGIC.

Mr. Poon Lai Yin, **Michael**, aged 31, is the financial controller and the company secretary of the Group. He is an associate member of Hong Kong Society of Accountants and a member of the CPA Australia. He holds a bachelor's degree in administrative studies with York University in Canada and a master's degree in practicing accounting with Monash University in Australia. Mr. Poon has gained more than 6 years of experience in auditing, taxation and accounting. Prior to joining the Group in March 2002, Mr. Poon worked for an international accounting firm and was responsible for providing business advisory and assurance services to some listed clients.

The following is a summary of the results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

1 RESULTS

	Years ended 31st December		
	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Turnover	**76,656**	60,498	50,913
Cost of sales	**(50,782)**	(42,303)	(35,373)
Gross profit	**25,874**	18,195	15,540
Other revenue	**244**	735	446
Selling and distribution expenses	**(4,123)**	(1,569)	(1,298)
General and administrative expenses	**(6,867)**	(3,967)	(3,101)
Profit from operations	**15,128**	13,394	11,587
Finance costs	**(536)**	(535)	(518)
Profit before taxation	**14,592**	12,859	11,069
Taxation	**(2,412)**	(1,400)	(309)
Profit before minority interests	**12,180**	11,459	10,760
Minority interests	**(6,831)**	(5,410)	(5,478)
Profit attributable to shareholders	**5,349**	6,049	5,282

2 ASSETS AND LIABILITIES

	As at 31st December		
	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Total assets	**130,171**	76,672	101,567
Total liabilities	**(29,597)**	(36,395)	(51,976)
Total assets less total liabilities	**100,574**	40,277	49,591
Minority interests	**(36,494)**	(22,835)	(38,198)
Net assets	**64,080**	17,442	11,393

Notes:

1 The Company was incorporated in the Cayman Islands on 22nd October 2001 and became the holding company of the Group on 8th July 2002 as a result of the group reorganisation (the "Reorganisation") (See Note 1 to the accounts),

2 The results for each of the three years ended 31st December 2000, 2001 and 2002, and the assets and liabilities as at 31st December 2000, 2001 and 2002 have been prepared using the merger method of accounting as if the group structure immediately after the Reorganisation had been in existence since 1st January 2000.

Report of the Directors

The Directors have the pleasure of presenting the annual report together with the audited accounts of the Company and its subsidiaries for the year ended 31st December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 22nd October 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

On 8th July 2002, pursuant to the Reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 15th July 2002. The shares of the Company have been listed on GEM since 19th July 2002.

The Reorganisation has been reflected in these accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of presentation of these accounts is set out in Note 1 to the accounts.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of loudspeaker systems to customers in Mainland China and overseas.

An analysis of the Group's performance by business and geographical segments is set out in Note 4 to the accounts.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2002, the five largest customers accounted for approximately 66% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 25% of the Group's total purchases. The largest customer of the Group accounted for approximately 23% of the Group's total turnover while the largest supplier accounted for approximately 7% of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 20.

The Directors recommend the payment of a final dividend of HK0.8125 cent per share, totalling HK$2,600,000 for the year ended 31st December 2002 (2001: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 20 to the accounts.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2002 amounted to approximately HK$46,140,000.

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.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accounts.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 12 to the accounts.

COMMITMENTS

Particulars of commitments as at 31st December 2002 are set out in Note 24 to the accounts.

RETIREMENT PLANS

Details of the retirement plans are set out in Note 25 to the accounts.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December 2002, which also constitute connected transactions and is exempted under the GEM Listing Rules are disclosed in Note 3 to the accounts.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Yang Tsu Ying	*(appointed on 1st July 2002)*
Mr. Yang Ching Yau	*(appointed on 1st July 2002)*

Independent non-executive Directors

Mr. Yiu Chi Wah	*(appointed on 1st July 2002)*
Mr. Wong Kai Tung, Simon	*(appointed on 1st July 2002)*

In accordance with the articles of association of the Company, Mr. Wong Kai Tung, Simon, an independent non-executive Director, will retire from office and, will be eligible to offer themselves for re-election at the forthcoming annual general meeting of the Company.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st July 2002, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive Directors is entitled to a basic salary subject to an annual increment after 31st March 2003 at the discretion of the audit committee of the Company of not more than 20% of the annual salary immediately prior to such increase. In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 15% of the audited consolidated profits attributable to the shareholders (after payment of such management bonuses) in respect of that financial year 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 determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2002, the interests of the Directors and their respective associates in the Company and its associated corporations are recorded in the register maintained under Section 29 of the Securities (Disclosures of Interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Number of shares of the Company					Percentage
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	of shares outstanding
Mr. Yang Tsu Ying *(Note)*	–	–	–	240,000,000	240,000,000	75%
Mr. Yang Ching Yau *(Note)*	–	–	–	240,000,000	240,000,000	75%

Note:

As at 31st December 2002, the 240,000,000 shares of the Company were 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 was registered in the name of and beneficially owned by HSBC International Trustee Limited as the trustee of The SEI Trust, the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.

Other than disclosed above, as at 31st December 2002, neither the Directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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 sale 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.

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 share option scheme adopted by the Company on 8th July 2002 (the "Share Option Scheme"). During the year ended 31st December 2002, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 31st December 2002, none of the Directors or the employees of the Group had any rights to acquire shares.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company has been notified of the following interests, being 10% or more of the shares of the Company:

Name	Number of issued shares	Percentage
Newood Consultancy Limited	240,000,000 *(Note)*	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 Trusts, the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau. Accordingly, each of Silver Way Limited, Mr. Yang Tsu Ying and Mr. Yang Ching Yau is deemed to be interested in the shares in which Newood Consultancy Limited is interested pursuant to the SDI Ordinance.

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 capital of the Company.

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 year.

SPONSOR'S INTEREST

As at 31st December 2002, the Company has been notified by Deloitte & Touche Corporate Finance Ltd (the "Sponsor") that neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

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

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 has established an audit committee on 8th July 2002 and has formulated its written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The duties of the audit committee include reviewing, in draft form, the Company's annual report and accounts, interim report and quarterly report and providing advices and comments to the board of Directors (the "Board"). In this regard, members of the audit committee will liaise with the Board, senior management and its qualified accountant and the Company's auditors. The audit committee will also consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the Company's accountant, compliance officer or auditors. Members of the audit committee are also responsible for reviewing the Company's financial reporting process and internal control systems. The audit committee has met twice since its establishment and performed the aforesaid duties.

The members of the audit committee during the year and up to the date of this report are as follows:

Mr. Yiu Chi Wah*	*(appointed on 8th July 2002)*
Mr. Wong Kai Tung, Simon*	*(appointed on 8th July 2002)*

* *Independent non-executive Directors*

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDITORS

On 24th January 2003, the Company's former auditors, KLL Associates CPA Ltd (formerly known as K.L.Lee & Partners C.P.A. Ltd), resigned and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy. Apart from this, there has been no change in auditors of the Group in any of the preceding three years.

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board,

Yang Tsu Ying
Chairman

Hong Kong, 28th March 2003

Comparison of Business Objectives with Actual Business Progress

On 19th July 2002, the Company obtained net proceeds, after deducting all relevant share issue expenses, of approximately HK$31.5 million from the new issue of shares by way of placing. Up to 31st December 2002, the Group has applied the net proceeds as follows:

	Amount extracted from the prospectus dated 15th July 2002	Actual amount used up to 31st December 2002	Remaining net proceeds
	HK$ (in million)	*HK$ (in million)*	*HK$ (in million)*
Strategic development and business improvement	2.9	0.3	2.6
Research and development	7.8	0.3	7.5
Sales and marketing strategy	7.2	0.8	6.4
Expansion and alliance	13.6	0.5	13.1
Total	31.5	1.9	29.6

The remaining net proceeds as at 31st December 2002 was approximately HK$29.6 million, which have been placed as short-term interest bearing deposit with banks in Hong Kong.

Comparisons of the business objectives with the actual business progress set out in the prospectus of the Company for the period from 15th July 2002 to 31st December 2002 are as follows:

Business objectives as stated in the prospectus	**Actual business progress/change in business objectives**
Strategic development and business improvements	
Improve overall management information systems	Preliminary works for implementation of new management information systems have been completed. The remaining improvement works are in progress as planned
Organise individual training programmes to improve managerial and technical skills of the senior management staff	Individual training programmes for senior management are in progress as planned
Implement training programmes to improve skills of research and development staff	Training programmes for research and development staff are in progress as planned

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus	Actual business progress/change in business objectives
Improve internal control systems	Internal control systems for purchase cycle and production cycle have been improved and in operation. Improvement works for other operating cycles are in progress as planned
Research and development	
Conduct research on the development of instantaneous on-line loudspeaker power-test and intellectual monitoring systems ("OLIMS")	The development of instantaneous OLIMS is deferred due to change of technological requirements
Perform feasibility studies on developing new models and technologically advanced products	An independent consultant, Mr. Dave Clark was appointed. He has over 30 years of experience in the audio industry and he will contribute his expertise and provide advice on the development of advanced loudspeaker systems for automobiles and home theatres, as well as advising on the Group's future expansion. Mr. Clark is famed for his acoustics expertise around the world and the OEM industry. He received a Bachelor of Sciences degree in Electrical Engineering from Lawrence Technological University in 1977. Since then, he has operated DLC Design, an audio consulting firm in Detroit, Michigan, U.S.A. Mr. Clark has also served for six years as vice-president and committee member of the Audio Engineering Society. He has presented technical papers on subjective testing, room acoustics, loudspeaker design and testing, car audio and psychoacoustics to the Audio Engineering Society, the Acoustical Society of America and the Society of Automotive Engineers
Perform comprehensive studies on the worldwide home theatres industry	All research studies for home theatres industry are in progress as planned
Perform research and development programmes to improve the quality, performance and functionality of products	The programmes will be led by Mr. Dave Clark, an independent acoustic consultant, in the Year 2003
Review quality assurance policies and systems and renew its quality assurance certification	Review of quality assurance policies and systems was completed in March 2003 and quality assurance certificates will be obtained before June 2003

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus	**Actual business progress/change in business objectives**
Purchase specialised vehicles with built-in audio sensors to test the performance of loudspeaker systems for automobiles in a real-car environment	Purchased and in used for testing certain types of loudspeaker systems for automobiles
Sales and marketing strategy	
Strengthen relationships with existing customers by organising site visits and regular meetings	Certain site visits and regular meetings have been organised in the year
Promote corporate image and capabilities in the PRC and overseas markets	Successfully participated in the Electronic Manufacturer EXpo ("eMEX") 2002 in Suzhou, in addition to the loudspeaker systems for automobiles and home theatres, the latest multimedia loudspeaker systems for computer, mini-disc and mini-HiFi were exhibited
Explore overseas home theatres markets	Successfully explored overseas home theatres markets in the US and Europe
Commence marketing campaigns to promote brand awareness of loudspeaker products	Plan for marketing campaigns is under review
Employ at least four additional staff with university degrees to carry out sales and marketing plans	Potential applicants for carry out sales and marketing plan are under the process of recruitment
Expansion and alliance	
Perform feasibility studies on the setting up of new production facilities in other major PRC cities where automobile manufacturers are located	Studies on the setting up of new production facilities are commenced in December 2002
Seek partnership opportunities with PRC automobile manufacturers	In progress

The Directors believe that the proceeds are sufficient for covering all stated objectives in the relevant periods stated in the prospectus of the Company dated 15th July 2002.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF SONAVOX INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 20 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31st December 2002 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28th March 2003

Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	*3 & 4*	**76,656**	60,498
Cost of sales	*3*	**(50,782)**	(42,303)
Gross profit		**25,874**	18,195
Other revenue	*4*	**244**	735
Selling and distribution expenses		**(4,123)**	(1,569)
General and administrative expenses		**(6,867)**	(3,967)
Operating profit	*5*	**15,128**	13,394
Finance costs	*7*	**(536)**	(535)
Profit before taxation		**14,592**	12,859
Taxation	*8*	**(2,412)**	(1,400)
Profit after taxation		**12,180**	11,459
Minority interests		**(6,831)**	(5,410)
Profit attributable to shareholders	*9*	**5,349**	6,049
Dividend	*10*	**2,600**	–
Earnings per share	*11*		
– Basic		**HK1.94 cents**	HK2.52 cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31st December 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Fixed assets	12	**52,474**	40,782
Current assets			
Inventories	14	**13,227**	8,831
Trade receivables	3 & 15	**19,876**	17,685
Prepayments, deposits and other current assets		**2,159**	2,110
Due from a minority shareholder of a subsidiary	16	**943**	–
Cash and bank deposits	17	**41,492**	7,264
Total current assets		**77,697**	35,890
Current liabilities			
Trade payables	3 & 18	**(13,139)**	(6,898)
Accruals and other payables		**(8,271)**	(13,704)
Short-term bank loans	19	**(6,224)**	(4,950)
Due to a shareholder		**–**	(6,940)
Due to a minority shareholder of a subsidiary	16	**–**	(2,545)
Taxation payable		**(1,963)**	(1,358)
Total current liabilities		**(29,597)**	(36,395)
Net current assets/(liabilities)		**48,100**	(505)
Total assets less current liabilities		**100,574**	40,277
Financed by:			
Share capital	20	**3,200**	2,400
Reserves	22	**60,880**	15,042
Shareholders' funds		**64,080**	17,442
Minority interests		**36,494**	22,835
		100,574	40,277

YANG TSU YING
Chairman

YANG CHING YAU
Executive Director

Balance Sheet

As at 31st December 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current asset			
Investment in subsidiaries	13	**19,700**	–
Current assets			
Prepayments, deposits and other current assets		**318**	–
Cash and bank deposits		**29,879**	–
Total current assets		**30,197**	–
Current liabilities			
Accruals and other payables		**(557)**	–
Net current assets		**29,640**	–
Net assets		**49,340**	–
Financed by:			
Share capital	20	**3,200**	–
Reserves	22	**46,140**	–
Shareholders' funds		**49,340**	–

YANG TSU YING
Chairman

YANG CHING YAU
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Note	Total equity *HK$'000*
At 1st January 2001		**11,393**
Profit for the year		**6,049**
At 31st December 2001		**17,442**
Profit for the year		**5,349**
Surplus on revaluation of land and buildings	*22*	**7,107**
Issue of shares	*20*	**40,000**
Share issue expenses	*22*	**(8,547)**
Effect of the Reorganisation	*22*	**2,541**
Translation adjustments	*22*	**188**
At 31st December 2002		**64,080**

Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 **HK$'000**	2001 *HK$'000*
Net cash inflow generated from operations	*23(a)*	**15,696**	18,718
Interest paid		**(536)**	(535)
Mainland China enterprise income tax paid		**(1,807)**	(172)
Net cash inflow from operating activities		**13,353**	18,011
Investing activities			
Interest received		**90**	239
Purchase of fixed assets		**(4,243)**	(17,705)
Repayment from shareholders and minority shareholders of subsidiaries		**–**	31,363
Net cash (outflow)/inflow from investing activities		**(4,153)**	13,897
Net cash inflow before financing		**9,200**	31,908
Financing	*23(b)*		
Issue of shares		**40,000**	–
Share issue expenses		**(8,547)**	–
New short-term bank loans		**6,224**	–
Repayment of short-term bank loans		**(4,950)**	(5,324)
Repayment of balance due to a shareholder		**(4,399)**	(18,972)
Repayment of balance due to a minority shareholder of a subsidiary		**(2,545)**	–
Capital withdrawn from minority shareholders of subsidiaries		**–**	(5,230)
Increase in amount due from a minority shareholder of a subsidiary		**(943)**	–
Dividends paid to minority shareholders of subsidiaries		**–**	(12,998)
Net cash inflow/(outflow) from financing		**24,840**	(42,524)
Increase/(decrease) in cash and bank deposits		**34,040**	(10,616)
Cash and bank deposits,			
At 1st January		**7,264**	17,880
Effect of foreign exchange rate changes		**188**	–
At 31st December		**41,492**	7,264

1 GROUP REORGANISATION AND BASIS OF PRESENTATION

Sonavox International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 22nd October 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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") which included exchange of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries (the "Group") 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 consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December 2002. The comparative figures as at and for the year ended 31st December 2001 have been presented on the same basis.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of loudspeaker systems to customers in the People's Republic of China ("Mainland China") and overseas.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HKSA"). They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

In the current year, the HKSA issued a number of Statements of Standard Accounting Practice ("SSAPs") and related interpretations which are effective for accounting periods commencing on or after 1st January 2002. The new SSAPs relevant to the Group are:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of the aforementioned revised SSAPs had no material effect on amounts reported in the prior year.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December 2002. Subsidiaries are those entities in which the Group directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating polices; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Except for the Reorganisation as described in Note 1, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Gain or loss on disposal of subsidiaries represents the difference between the sales proceeds and the Group's share of the net assets/liabilities of the subsidiaries together with any unamortised goodwill or negative goodwill, or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contributions and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group is able to govern and control the financial and operating policies of the joint venture. If the Group can only exercise significant influence over the equity joint venture, such joint venture is accounted for as an associate.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. In prior years, the profit and loss of the subsidiaries was translated at closing rate, instead of average rate. This represents a change in accounting policy, the effect of which has not been restated as the Directors considered the effect of such change is not material to the current and prior years.

(c) Fixed assets

(i) Land and buildings

Land and buildings are stated at fair values and are subject to independent valuations on a regular basis, with the last valuation performed on 31st December 2002. Increase in valuation of land and buildings is credited to the property revaluation reserve while any decrease is firstly offset against the earlier increase in valuation in respect of the same land and buildings and is thereafter charged to the profit and loss account.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, machinery, furniture and equipment, and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land	Over the term of the lease
Buildings	Over the term of the lease, or 30 years whichever is shorter
Leasehold improvements	20%
Machinery	20%
Furniture and equipment	20%
Motor vehicles	20%

Major costs incurred in restoring the fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labor and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from sale of goods is recognised when the goods are delivered and title has passed. Interest income is recognised on a time-proportion basis, taking into account the principal outstanding and the interest rates applicable.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to accumulating compensated absences are recognised when they accrue to employees. A provision is made for the estimated liability for accumulating compensated absences as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to non-accumulating compensated absences are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

Provision for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present, legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

3 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant related party transactions, which were carried out in the normal course of business are as follows:

	2002 ***HK$'000***	2001 *HK$'000*
Purchase from Sonavox Electronics Inc.*	**647**	–
Sale to Sonavox Electronics Inc.*	**–**	578
Sale to Asian Elite International Limited*	**140**	–
Accounts receivable from Asian Elite International Limited*	**60**	–
Accounts payable to Sonavox Electronics Inc.*	**647**	–

In the opinion of the Directors, the above transactions were conducted in accordance with the terms of the respective arrangements between the Group and the related parties.

* *These are companies in which Mr. Yang Tsu Ying and Mr. Yang Ching Yau, Directors of the Company, have beneficial interests.*

4 TURNOVER, REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of loudspeaker systems to customers in Mainland China, Japan, United States of America ("USA"), Europe and others. Accordingly, the Directors consider there is one business segment and five geographical segments.

Analysis of turnover and revenue in the consolidated profit and loss account is as follows:

	2002 ***HK$'000***	2001 *HK$'000*
Turnover		
Manufacture and sale of loudspeaker systems	**76,656**	60,498
Other revenue		
Interest income	**90**	239
Others	**154**	496
	244	735
Total revenue	**76,900**	61,233

Approximately 66% of the Group's turnover for the year ended 31st December 2002 (2001: 76%) arose from the Group's top five customers.

4 TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

An analysis of geographical segments is as follows:

	Year ended 31st December 2002						
	Hong Kong	Mainland China	Japan	USA	Europe	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover*:							
External sales	–	59,548	9,200	3,647	4,261	–	76,656
Inter-segment sales	–	12,069	–	–	–	(12,069)	–
Total turnover	–	71,617	9,200	3,647	4,261	(12,069)	76,656
Segment result	(1,763)	10,962	3,057	1,212	1,416	–	14,884
Unallocated income							244
							15,128
Finance costs							(536)
Profit before taxation							14,592
Taxation							(2,412)
Profit after taxation							12,180
Minority interests							(6,831)
Profit attributable to shareholders							5,349
Segment assets	49,897	98,065	698	798	413	(19,700)	130,171
Segment liabilities	(557)	(29,040)	–	–	–	–	(29,597)
Capital expenditure	–	4,243	–	–	–	–	4,243
Depreciation	–	6,486	–	–	–	–	6,486

* *Segment sales are based on the country in which the customer is located.*

4 TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

	Year ended 31st December 2001						
	Hong Kong	Mainland China	Japan	Europe	Taiwan	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover*:							
External sales	–	58,117	1,502	301	578	–	60,498
Inter-segment sales	–	26,604	–	–	–	(26,604)	–
Total turnover	–	84,721	1,502	301	578	(26,604)	60,498
Segment result	–	11,942	452	91	174	–	12,659
Unallocated income							735
Finance costs							(535)
Profit before taxation							12,859
Taxation							(1,400)
Profit after taxation							11,459
Minority interests							(5,410)
Profit attributable to shareholders							6,049
Segment assets	–	75,204	1,259	100	109	–	76,672
Segment liabilities	–	(36,395)	–	–	–	–	(36,395)
Capital expenditure	–	17,705	–	–	–	–	17,705
Depreciation	–	5,034	–	–	–	–	5,034

* *Segment sales are based on the country in which the customer is located.*

5 OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2002	2001
	HK$'000	*HK$'000*
Charging		
Staff costs (including Directors' emoluments)	**11,229**	8,331
Operating lease rentals in respect of premises	**83**	–
Depreciation	**6,486**	5,034
Provision for bad and doubtful debts	**481**	74
Provision for obsolete and slow-moving inventories	**–**	1,581
Auditors' remuneration	**400**	97
Crediting		
Interest income	**90**	239

6 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid/payable to Directors of the Company during the year are:

	2002	2001
	HK$'000	*HK$'000*
Fees for executive Directors	**–**	–
Fees for independent non-executive Directors	**173**	–
Salaries and allowances for executive Directors	**243**	–
	416	–

No Directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director for the year.

6 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

Analysis of Directors' emoluments by number of Directors and emolument range is as follows:

	2002	2001
Executive Directors		
– Nil to HK$1,000,000	**2**	2
Non-executive Directors		
– Nil to HK$1,000,000	**2**	2
	4	4

During the year, each executive Director received emoluments of approximately HK$122,000 (2001: Nil) and each non-executive director received a fee of approximately HK$87,000 (2001: Nil).

(b) Details of emoluments of the five highest paid individuals are:

	2002 ***HK$'000***	2001 *HK$'000*
Salaries and allowances	**947**	895
Retirement benefit costs	**57**	56
	1,004	951

None (2001: None) of the highest paid individuals were Directors of the Company.

During the year, no emoluments were paid to the five highest paid as inducement to join or upon joining the Group or as compensation for loss of office. The emoluments of all of the five highest paid individuals fall within the range of Nil to HK$1,000,000.

7 FINANCE COSTS

	2002 ***HK$'000***	2001 *HK$'000*
Interest on short-term bank loans wholly repayable within five years	**536**	535

8 TAXATION

	2002 *HK$'000*	2001 HK$'000
Mainland China enterprise income tax	**2,412**	1,400

The Company is incorporated in the Cayman Islands and is exempt 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.

Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics"), Suzhou Shangsheng Electronics Enterprises Co., Ltd. ("Shangsheng Enterprises") and Suzhou Sonavox Acoustics Co., Ltd. ("Sonavox Acoustics") being foreign investment enterprises established in the Coastal Open Economic Region of Suzhou, Mainland China, are subject to preferential enterprise income tax rate of 24% and are entitled to full exemption from Mainland China enterprise income tax for two years starting from its first profit-marking year 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.

Shangsheng Electrics was exempted from Mainland China enterprise income tax up to 31st December 1997 and it is subject to Mainland China enterprise income tax at a rate of 12% 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". Shangsheng Enterprises was exempted from Mainland China enterprise income tax up to 31st December 2000 and is subject to Mainland China enterprise income tax at a rate of 12% from 1st January 2001 to 31st December 2003. Sonavox Acoustics has been reporting loss since its establishment.

No provision for Hong Kong profits tax has been made as there are no assessable profit (2001: Nil) for the subsidiaries operating in Hong Kong during the year.

There was no material unprovided deferred taxation for the year.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately HK$1,763,000 (2001: Nil) dealt with in the accounts of the Company.

10 DIVIDEND

On 28th March 2003, the Company's Directors proposed a final dividend of HK0.8125 cent per share, totalling HK$2,600,000 in respect of the year ended 31st December 2002.

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December 2002 is based on the consolidated profit attributable to shareholders of approximately HK$5,349,000 (2001: HK$6,049,000) and on the weighted average number of approximately 275,945,000 (2001: 240,000,000) ordinary shares deemed to be in issue during the year on the basis of presentation relating to the Reorganisation as described in Note 1.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the year ended 31st December 2002 (2001: Nil).

12 FIXED ASSETS

	2002						2001
	Land and buildings	Leasehold improvements	Machinery	Furniture and equipment	Motor vehicles	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation							
Beginning of year	27,285	2,580	18,014	5,712	2,385	55,976	38,460
Additions	–	–	2,641	897	705	4,243	17,705
Surplus on revaluation	10,435	–	–	–	–	10,435	–
Disposals	–	–	–	–	–	–	(189)
End of year	37,720	2,580	20,655	6,609	3,090	70,654	55,976
Analysed as –							
At cost	–	2,580	20,655	6,609	3,090	32,934	55,976
At valuation in 2002	37,720	–	–	–	–	37,720	–
	37,720	2,580	20,655	6,609	3,090	70,654	55,976
Accumulated depreciation							
Beginning of year	2,681	718	8,421	2,411	963	15,194	10,349
Charge for the year	819	516	3,683	920	548	6,486	5,034
Disposals	–	–	–	–	–	–	(189)
Write back on revaluation	(3,500)	–	–	–	–	(3,500)	–
End of year	–	1,234	12,104	3,331	1,511	18,180	15,194
Net book value							
End of year	37,720	1,346	8,551	3,278	1,579	52,474	40,782
Beginning of year	24,604	1,862	9,593	3,301	1,422	40,782	28,111

12 FIXED ASSETS (Continued)

The land and buildings represent the Group's factory premises located in Suzhou, Jiangsu Province, Mainland China, and are held under land use rights for a period of 50 years up to 2051. All the land and buildings are stated at fair market value as at 31st December 2002 as determined by Grant Sherman Appraisal Limited, an independent qualified valuer, on a depreciated replacement cost basis.

As at 31st December 2002, all (2001: all) of the Group's land and buildings were pledged as security for short-term bank loans.

Had all the land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31st December 2002 would have been approximately HK$23,785,000 (2001: HK$24,604,000).

13 INVESTMENT IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**14,650**	–
Amounts due from subsidiaries	**5,050**	–
	19,700	–

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment term.

13 INVESTMENT IN SUBSIDIARIES (Continued)

The following is a list of the subsidiaries as at 31st December 2002:

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Interest held	Principal activities and place of operation
Taraki Inc. (a)	British Virgin Islands, limited liability company	US$2	100%	Investment holding
Suzhou Shangsheng Electrics Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	US$2,380,000	51%	Manufacture and sale of loudspeaker systems for automobiles
Suzhou Shangsheng Electronics Enterprises Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	US$1,120,000	51%	Manufacture and sale of loudspeaker components
Suzhou Sonavox Acoustics Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	US$2,500,000	51%	Manufacture and sale of loudspeaker systems for home theatres
Taraki Services Company Limited	Hong Kong, limited liability company	HK$2	100%	Provision of management services to group companies
Sonavox Trading Company Limited	Samoa, limited liability company	US$1	100%	Inactive

Notes:

a. The shares of Taraki Inc. are held directly by the Company. The shares of other subsidiaries are held indirectly.

b. Suzhou Shangsheng Electrics Co., Ltd., Suzhou Shangsheng Electronics Enterprises Co., Ltd. and Suzhou Sonavox Acoustics Co., Ltd. are sino-foreign equity joint ventures established in Mainland China to be operated for 50 years up to 2042, 2047 and 2050, respectively.

14 INVENTORIES

At 31st December 2002, inventories consisted of:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**4,385**	4,197
Work-in-progress	**1,320**	1,144
Finished goods	**7,522**	3,490
	13,227	8,831

At 31st December 2002, there were no inventories stated at net realisable value (2001: Nil).

15 TRADE RECEIVABLES

Majority of the Group's sales is on open account in accordance with terms specified in the contracts governing the relevant transactions.

At 31st December 2002, ageing analysis of the Group's trade receivables was as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0 – 30 days	**11,151**	11,988
31 – 60 days	**5,427**	4,686
61 – 90 days	**1,593**	633
91 – 180 days	**1,675**	378
181 – 360 days	**340**	–
Over 360 days	**700**	529
	20,886	18,214
Less: Provision for bad and doubtful debts	**(1,010)**	(529)
	19,876	17,685

16 DUE FROM/(TO) A MINORITY SHAREHOLDER OF A SUBSIDIARY

Amount due from/(to) a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

17 CASH AND BANK DEPOSITS

The Group's cash and bank deposits of approximately HK$11,514,000 (2001: HK$6,650,000) are denominated in Renminbi and are placed with banks in Mainland China. The remittance of these funds out of Mainland China is subject to the exchange control restrictions imposed by the government of Mainland China.

18 TRADE PAYABLES

At 31st December 2002, the ageing analysis of the Group's trade payables was as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0 – 30 days	**5,570**	1,996
31 – 60 days	**3,011**	2,001
61 – 90 days	**2,670**	1,957
91 – 180 days	**1,380**	303
181 – 360 days	**372**	93
Over 360 days	**136**	548
	13,139	6,898

19 SHORT-TERM BANK LOANS

Short-term bank loans bore interest at rates ranging from 4.6% to 5.8% per annum and were repayable within one year. Refer to Note 26 for details of the Group's banking facilities.

20 SHARE CAPITAL

	Authorised	
	Number of shares *'000*	Nominal value *HK$'000*
Upon incorporation of the Company and at 1st January 2002	1,000	100
Subdivision of shares	9,000	–
Increase in authorised share capital	19,990,000	199,900
At 31st December 2002	**20,000,000**	**200,000**

	Issued and fully paid	
	Number of shares *'000*	Nominal value *HK$'000*
At 31st December 2002	**320,000**	**3,200**

Notes:

(a) Upon incorporation, the Company had authorised share capital of HK$100,000, divided into 1,000,000 shares of HK$0.10 each. On 1st November 2001, 1 share was alloted and issued as nil paid.

(b) On 8th July 2002, the Company subdivided all its issued and unissued shares of HK$0.10 each into 10 shares of HK$0.01 each.

(c) On 8th July 2002, the Company's authorised share capital was increased from HK$100,000 to HK$200,000,000, by the creation of an additional 19,990,000,000 shares ranking pari passu with the then existing shares in all respects.

(d) On 8th July 2002, the Company acquired the entire issued share capital of Taraki Inc. by issuing 9,999,990 shares of the Company, credited as fully paid, and crediting as fully paid the 10 nil paid shares previously issued as mentioned in Note 20(a) above.

(e) On 19th July 2002, 80,000,000 shares of HK$0.01 each were issued at HK$0.50 per share through a placing ("the New Issue"), resulting in net proceeds of approximately HK$31,453,000.

(f) Immediately after the New Issue, share premium of HK$2,300,000 was capitalised for the issuance of 230,000,000 shares of HK$0.01 each on a pro-rata basis to certain of the Company's shareholders prior to the New Issue.

(g) The share capital presented in the consolidated balance sheet as at 31st December 2001 represents the share capital of the Company, arising on incorporation, from the share exchange transaction and capitalisation issue described in Note 20(a), (d) and (f) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in Note 1. The differences between the nominal value of these shares and aggregate of the nominal value of shares and share premium of a subsidiary acquired pursuant to the Reorganisation is accounted for as merger reserve as at 31st December 2001 (Note 22).

21 SHARE OPTIONS

The Company has a share option scheme adopted on 8th July 2002 (the "Share Option Scheme") under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose any shares issued on the exercise of options granted under the scheme. The subscription price will be determined by the Company's board of Directors, and will not be less than the highest of (a) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of the offer of grant; (b) the average closing price of the shares quoted on the GEM of the Stock Exchange; and (c) the nominal value of the shares.

As at 31st December 2002, no option had been granted under the Share Option Scheme.

22 RESERVES

Movements of the Group's reserves were as follows:

	Share premium	Property revaluation reserve	Statutory reserves (a)	Merger reserve (b)	Cumulative translation adjustments	Retained earnings	Proposed dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2001	–	–	2,841	(2,400)	–	8,552	–	8,993
Profit for the year	–	–	–	–	–	6,049	–	6,049
Appropriations	–	–	386	–	–	(386)	–	–
At 31st December 2001	–	–	3,227	(2,400)	–	14,215	–	15,042
Profit for the year	–	–	–	–	–	5,349	–	5,349
Surplus on revaluation of land and buildings	–	7,107	–	–	–	–	–	7,107
Issue of shares *(Note 20(d) & (e))*	39,200	–	–	–	–	–	–	39,200
Share issue expenses *(Note 20(e))*	(8,547)	–	–	–	–	–	–	(8,547)
Capitalisation of share premium *(Note 20(f))*	(2,300)	–	–	2,300	–	–	–	–
Effect of the Reorganisation	–	–	–	2,541	–	–	–	2,541
Proposed dividend	(2,600)	–	–	–	–	–	2,600	–
Translation adjustments	–	–	–	–	188	–	–	188
At 31st December 2002	25,753	7,107	3,227	2,441	188	19,564	2,600	60,880

22 RESERVES (Continued)

Movements of the Company's reserves were as follows:

	Share premium	Merger reserve (b)	Accumulated Deficits	Proposed dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2002	–	–	–	–	–
Loss attributable to shareholders	–	–	(1,763)	–	(1,763)
Issue of shares *(Note 20(d) & (e))*	39,200	–	–	–	39,200
Share issue expenses *(Note 20(e))*	(8,547)	–	–	–	(8,547)
Capitalisation of share premium *(Note 20(f))*	(2,300)	–	–	–	(2,300)
Effect of the Reorganisation	–	19,550	–	–	19,550
Proposed dividend	(2,600)	–	–	2,600	–
At 31st December 2002	25,753	19,550	(1,763)	2,600	46,140

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the Group's subsidiaries in Mainland China, appropriations are made from the profit and loss account to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in Mainland China. Such appropriations to reserves would be made only with approval from the board of directors of the Group's subsidiaries in Mainland China.

(b) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares. Refer to Note 20(g) for 2001 comparatives

Merger reserve of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

23 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow generated from operations:

	2002 **HK$'000**	2001 HK$'000
Profit before taxation	**14,592**	12,859
Interest income	**(90)**	(239)
Interest expense	**536**	535
Depreciation	**6,486**	5,034
(Increase)/decrease in inventories	**(4,396)**	1,467
Increase in trade receivables	**(2,191)**	(11,342)
(Increase)/decrease in prepayments, deposits and other current assets	**(49)**	5,462
Increase in trade payables	**6,241**	2,017
(Decrease)/increase in accruals and other payables	**(5,433)**	2,925
Net cash inflow generated from operations	**15,696**	18,718

23 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing is as follows:

	Share capital and share premium	Short-term bank loans	Due to a shareholder	Due to/(from) a minority shareholder of a subsidiary	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st January 2001	–	10,274	25,912	2,545	35,653	74,384
Repayment	–	(5,324)	(18,972)	–	–	(24,296)
Share of profit for the year	–	–	–	–	5,410	5,410
Capital withdrawn from minority shareholders	–	–	–	–	(5,230)	(5,230)
Dividends paid to minority interests	–	–	–	–	(12,998)	(12,998)
At 31st December 2001	–	4,950	6,940	2,545	22,835	37,270
Issue of shares *(Note 20(d) & (e))*	40,100	–	–	–	–	40,100
Share issue expenses *(Note 20(e))*	(8,547)	–	–	–	–	(8,547)
New bank loans	–	6,224	–	–	–	6,224
Repayment	–	(4,950)	(4,399)	(2,545)	–	(11,894)
Capitalisation of balance due to a shareholder	–	–	(2,541)	–	–	(2,541)
Share of profit for the year	–	–	–	–	6,831	6,831
Share of minority interests on reserves	–	–	–	–	6,828	6,828
Increase in due from a minority shareholder	–	–	–	(943)	–	(943)
At 31st December 2002	31,553	6,224	–	(943)	36,494	73,328

(c) Major non-cash transactions during the year:

i. During the year, the Company acquired the entire issued share capital of Taraki Inc. by issuing 9,999,990 shares with par value of HK$0.01 each of the Company.

ii. On 8th July 2002, Taraki Inc. allotted and issued one share with par value of US$1 each to the then shareholder of the Company for settlement of the then outstanding balance due to it of approximately HK$2,541,000.

iii. During the year, share premium of HK$2,300,000 was capitalised for issuance of 230,000,000 shares of HK$0.01 each to certain shareholders of the Company. Refer to Note 20 for details of these major non– cash transactions.

24 COMMITMENTS UNDER OPERATING LEASE

At 31st December 2002, the Group had operating lease commitments in respect of a premise in Hong Kong under various non-cancellable operating lease agreements. The commitments payable under these agreements is analysed as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Not later than one year	**83**	–
Later than one year and not later than five years	**16**	–
	99	–

25 RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme at 5% of the employees' earnings with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month and thereafter contributions are voluntary.

During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to approximately HK$12,000 (2001: Nil).

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plans for its employees in Mainland China at a rate of 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. For the year ended 31st December 2002, the aggregate amount of the Group's employer contributions was approximately HK$917,000 (2001: HK$804,000).

26 BANK FACILITIES

As at 31st December 2002, the Group had aggregate banking facilities of approximately HK$14,151,000 (2001: HK$6,445,000). Unused facilities as at 31st December 2002 amounted to approximately HK$7,927,000 (2001: HK$1,495,000). These facilities were secured by:

(a) pledged of all of the Group's land and buildings with a carrying value of approximately HK$37,720,000 (2001: HK$24,604,000); and

(b) corporate guarantee provided by a Mainland China subsidiary of the Company.

27 ULTIMATE HOLDING COMPANY

The Directors regard Newood Consultancy Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

28 COMPARATIVE FIGURES

As further explained in note 2(a) to the accounts, due to the adoption of certain new and revised SSAPs during the current year, the accounting presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been to conform to the current year's presentation.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th March 2003.

NOTICE IS HEREBY GIVEN that the annual general meeting of Sonavox International Holdings Limited (the "Company") will be held at Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Tuesday, 29th April 2003 at 9:30 a.m. for the following purposes:

1 To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the Directors and the auditors for the year ended 31st December 2002;

2 To consider the re-election of the retiring Directors and to authorise the board of Directors (the "Board") to fix the Directors' remuneration;

3 To consider the re-appointment of Messrs PricewaterhouseCoopers as auditors of the Company and to authorise the Board to fix their remuneration; and

4 As special business, to consider and, if thought fit, pass the following resolutions ("Resolution(s)") as ordinary resolutions:

A. "**THAT**:

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional authorised and issued shares in the capital of the Company and to make or grant offers, agreements and options including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options including rights to subscribe for or convert into shares, the making or granting of which might require the exercise of such powers to allot, issue and deal with additional shares in the capital of the Company after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any option granted under the Company's share option schemes or any other option, scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the time of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Company's memorandum and articles of association to be held; and

(iii) the authority set out in this Resolution being revoked or varied by way of ordinary resolution of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange); and

B. "**THAT**:

(a) subject to paragraph (c) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase issued shares in the capital of the Company on the GEM of the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Securities and Futures Commission, the Stock Exchange or any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company, on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the Directors of the Company;

(c) the aggregate nominal amount of shares which are authorised to be purchased by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Company's memorandum and articles of association to be held; and

(iii) the authority set out in this Resolution being revoked or varied by way of ordinary resolution of the Company in general meeting."

C. "**THAT** conditional on the passing of Resolution 4A and 4B as set out in the notice convening this Meeting of which this Resolution forms a part, the general mandate granted to the Directors of the Company to allot and issue shares pursuant to the Resolution 4A be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of shares in the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 4B, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the time of passing this Resolution."

By Order of the Board
Yang Tsu Ying
Chairman

Hong Kong, 28th March 2003

Head Office and Principal Place of Business in Hong Kong:
Unit 1702
17th Floor
Podium Plaza
No. 5 Hanoi Road
Tsimshatsui
Kowloon
Hong Kong

Notes:

1 Any member entitled to attend and vote at the meeting is entitled to appoint one or more separate proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2 To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's head office and principal place of business in Hong Kong c/o the company secretary at Unit 1702, 17th Floor, Podium Plaza, No. 5 Hanoi Road, Tsimshatsui, Kowloon, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3 Delivery of a form of proxy shall not preclude a member from attending and voting in person at the meeting and in such event, the form of proxy shall be deemed to be revoked.