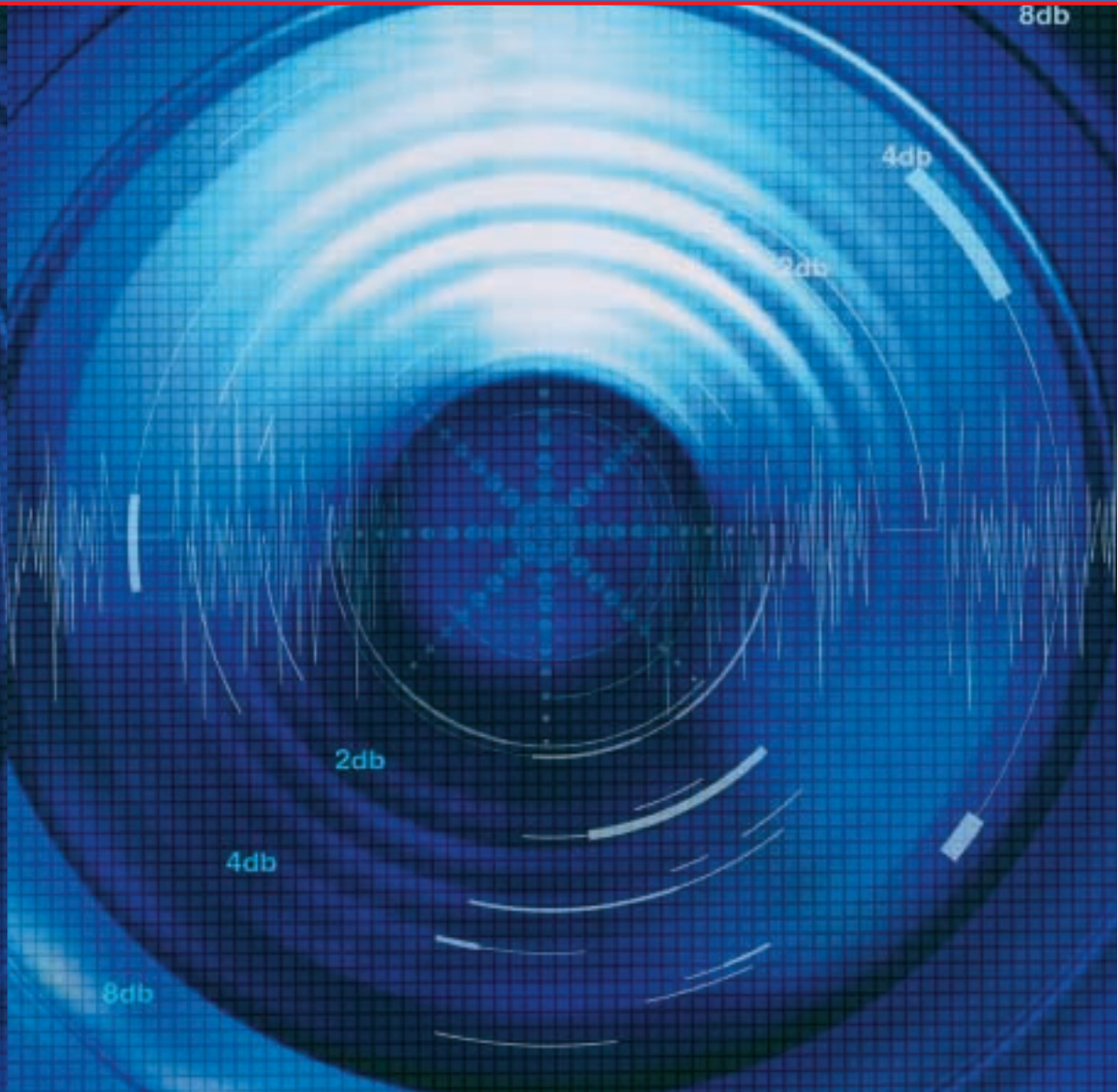




SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)



FIRST QUARTERLY REPORT 2003

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

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS

(Expressed in Hong Kong Dollars)

The Board of Directors (the “Board”) of Sonavox International Holdings Limited (the “Company”) herein announces the unaudited financial results of the Company and its subsidiaries (together the “Group” or “Sonavox”) for the three months ended 31st March 2003. The unaudited results of the Group for the three months ended 31st March 2003 and comparative figures for the corresponding period in the financial year 2002 were as follows:

| | | For the three months ended 31st March | |
|-------------------------------------|------|--|----------------|
| | Note | 2003 \$'000 | 2002 \$'000 |
| Turnover | 2 | 21,381 | 11,476 |
| Cost of sales | | <u>(14,369)</u> | <u>(8,184)</u> |
| Gross profit | | 7,012 | 3,292 |
| Other revenue | | 95 | – |
| Selling and distribution expenses | | (1,186) | (651) |
| General and administrative expenses | | <u>(2,268)</u> | <u>(1,261)</u> |
| Profit from operations | | 3,653 | 1,380 |
| Finance costs | | <u>(109)</u> | <u>(95)</u> |
| Profit before taxation | 3 | 3,544 | 1,285 |
| Taxation | 4 | <u>(742)</u> | <u>(169)</u> |
| Profit before minority interests | | 2,802 | 1,116 |
| Minority interests | | <u>(1,729)</u> | <u>(562)</u> |
| Profit attributable to shareholders | | <u>1,073</u> | <u>554</u> |
| Earnings per share – Basic (cents) | 6 | <u>0.34</u> | <u>0.23</u> |

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited consolidated results of the Group 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 and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are consistent with those followed in the Group’s audited financial statements for the year ended 31st December 2002.

The Group reorganised its structure in 2002 for listing of the Company on the GEM of the Stock Exchange on 19th July 2002. In accordance with the Statement of Standard Accounting Practice 27 “Accounting for Group Reconstructions”, the results of the Group for the three months ended 31st March 2002 have been prepared on the merger accounting basis as if the current structure of the Group had been in existence throughout the period.

2. TURNOVER

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

Turnover (unaudited) consisted of:

| | For the three months ended 31st March | |
|--|--|---------------|
| | 2003 | 2002 |
| | \$'000 | \$'000 |
| By geographical location (<i>Note</i>) | | |
| Mainland China | 15,414 | 7,935 |
| Japan | 2,262 | 2,440 |
| USA | 1,027 | – |
| Europe | 1,168 | 915 |
| Other | 1,510 | 186 |
| | <u>21,381</u> | <u>11,476</u> |

Note: Turnover by geographical location is determined on the basis of the destination of delivery of goods for the Group's sales of loudspeaker systems and location of the relevant activities.

3. PROFIT BEFORE TAXATION

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the three-month periods ended 31st March 2002 and 2003. Depreciation and amortisation of approximately \$1,987,000 (2002: \$1,650,000) were provided for fixed assets during the three-month period.

4. TAXATION

Taxation (unaudited) consisted of:

| | For the three months ended 31st March | |
|--------------------------------------|--|------------|
| | 2003 | 2002 |
| | \$'000 | \$'000 |
| Mainland China enterprise income tax | <u>742</u> | <u>169</u> |

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 (2002: Nil) made in Hong Kong during the year.

There was no material unprovided deferred taxation for the year.

5. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31st March 2003 (2002: Nil).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three-month period ended 31st March 2003 were based on the unaudited profit attributable to shareholders of approximately \$1,073,000 (2002: \$554,000) and on the weighted average number of approximately 320,000,000 shares ordinary shares during the three-month period ended 31st March 2003 and approximately 240,000,000 ordinary shares deemed to be in issue during the three-month period ended 31st March 2002 on the basis of presentation relating to the Reorganisation as described in Note 1 to the accounts of the audited financial statements for the year ended 31st December 2002.

7. RESERVES (UNAUDITED)

Movements of the Group's reserves for the three-month periods ended 31st March 2002 and 2003 were as follows:

| | Share premium | Property revaluation reserve | Statutory reserves | Merger reserve | Cumulative translation adjustments | Retained earnings | Proposed dividend | Total |
|-----------------------------------|---------------|------------------------------|--------------------|----------------|------------------------------------|-------------------|-------------------|--------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1st January 2002 | - | - | 3,227 | (2,400) | - | 14,215 | - | 15,042 |
| Profit for the three-month period | - | - | - | - | - | 554 | - | 554 |
| At 31st March 2002 | - | - | 3,227 | (2,400) | - | 14,769 | - | 15,596 |
| At 1st January 2003 | 25,753 | 7,107 | 3,227 | 2,441 | 188 | 19,564 | 2,600 | 60,880 |
| Profit for the three-month period | - | - | - | - | - | 1,073 | - | 1,073 |
| At 31st March 2003 | 25,753 | 7,107 | 3,227 | 2,441 | 188 | 20,637 | 2,600 | 61,953 |

BUSINESS REVIEW AND PROSPECTS

Business Review

According to the China Association of Automobile Manufacturers, output of automobiles stood at 1.02 million units for the first quarter of the year 2003, representing an increase of 54.7% compared with the same period of last year. These figures fully demonstrate that the purchasing power for automobiles in Mainland China outperformed most markets worldwide and that the continuously rising living standards of its people, nourishing a very fast growing automobile industry. In view of this booming market, Shanghai Volkswagen Automotive Co. Ltd. and Shanghai General Motors Co., Ltd., two major customers of the Group, accelerated their development pace by selling more cars starting from 2003, to meet the spectacular growth in automobile demand. This prosperous environment has also attracted leading automobile players to introduce new vehicle models into Mainland China market. Stimulated by these factors, the Group's automobile loudspeaker systems business achieved record-breaking performance to reach approximately \$16,972,000 in turnover, representing growth of approximately 86%.

During the review period, the Group has successfully obtained ISO/TS16949 and ISO 14001 certificates in recognition of the Group's proven quality systems that are able to provide continuous improvement, emphasis of defect prevention and the reduction of variation and waste in the automobile supply chain. As these certificates are requirements for OEM suppliers of DaimlerChrysler, General Motors and Ford Motor Company, the largest three automobile manufacturers in USA, the success in obtaining these certificates will enable the Group to further expand its customer base, grasping a larger share in overseas markets and bringing in additional streams of revenue for the Group.

The newly established service centre in Italy performed satisfactorily and generated revenue of approximately \$332,000 during the three months ended 31st March 2003. The service centre will not only provide customer services in Italy, management believes that it will also generate revenue of more than \$2 million in Europe.

During the first three months in 2003, the Group strove to implement a number of measures to increase cost-effectiveness and profitability. For home theatre loudspeaker systems, turnover of approximately \$4,409,000 was achieved during the first quarter of 2003.

Financial Review

Being able to capitalise on the rising demand for automobiles in Mainland China and to manufacture quality automobile loudspeaker systems, Sonavox achieved satisfactory financial results for the first quarter of 2003. During the three months ended 31st March 2003, the Group achieved a turnover of approximately \$21,381,000, representing an 86% leap as compared with the same corresponding period of year 2002. The gross profit margin improved from approximately 29% to approximately 33% due to higher production volume and capacities were utilised during the three-month period ended 31st March 2003. As a result, profit attributable to shareholders surged 94% to approximately \$1,073,000. Earnings per share were HK0.34 cents (2002: HK0.23 cents).

In terms of geographical distribution, Mainland China is currently the Group's biggest market, accounting for 72% of total turnover. However, the Group has been actively explored overseas markets and its efforts started to pay off, revenue from overseas markets during the review period surged 69% as compared with the same corresponding period of year 2002 and to reach approximately \$5,967,000. This trend demonstrated the effectiveness of the Group's marketing strategy to penetrate its loudspeaker systems to overseas markets and the commitment of the Group's management to sell quality loudspeaker systems in these markets.

The Group's total expenses in the three months ended 31st March 2003 increased by 80% from approximately \$10,360,000 to approximately \$18,674,000. The increase was mainly attributable to the higher level of business operations during the three-month period ended 31st March 2003 compared to that of the same corresponding period of year 2002 and additional expenses of approximately \$677,000 was necessary as a result of becoming a listed company.

Liquidity, Financial Resources and Treasury Policies

During the three months ended 31st March 2003, 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 March 2003, the Group had cash and bank deposits of approximately \$36,814,000. The Group achieved better performance in terms of liquidity ratios with a current ratio of approximately 3.3 and gearing ratio of approximately 0.35 as at 31st March 2003, compared with approximately 2.6 and 0.46 respectively as at 31st December 2002. The gearing ratio was calculated based on total liabilities over shareholders' equity as at the balance sheet dates. As at 31st March 2003, the Group had total liabilities amounting to approximately \$22,273,000 including short-term bank loans 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, net proceed from the completion of the placing in July 2002 is placed in deposit or interest-bearing bank accounts denominated in Hong Kong dollars or US dollars. The Group's liquidity and financial arrangements are reviewed regularly by the Directors and senior management.

Capital Commitment and Contingent Liabilities

As at 31st March 2003, the Group has capital commitment and contingent liabilities of approximately \$1,707,000.

Material Acquisition/Disposals and Significant Investment

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

Exposure on Exchange Rate Fluctuation

Since the functional currencies of the Group's operations are Hong Kong dollars and Renminbi, the Directors consider that the potential foreign exchange exposure of the Group is limited.

Banking Facilities and Pledge of Assets

As at 31st March 2003, the Group had aggregate banking facilities of approximately \$14,145,000 for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately \$2,263,000. These facilities were secured by the land use rights and building ownership rights owned by certain Mainland China subsidiaries of the Group together with a corporate guarantee given by a Mainland China subsidiary. 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 March 2003 would have been approximately \$23,580,000.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st March 2003 and 31st December 2002 were set out below:

| | As at 31st March 2003 | As at 31st December 2002 |
|-----------------------------------|----------------------------------|-------------------------------------|
| Management and administration | 54 | 42 |
| Sales and marketing | 15 | 17 |
| Manufacturing/operations | 574 | 560 |
| Research and development | 31 | 36 |
| Quality assurance/quality control | 83 | 70 |
| Finance and accounting | 11 | 10 |
| | <hr/> | <hr/> |
| Total | <u>768</u> | <u>735</u> |

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

Total remuneration incurred for the three months ended 31st March 2003 increased to approximately \$2,933,000 (2002: \$1,960,000) due to the fact that the Group hired certain professional staff who were remunerated a higher salaries during the three months ended 31st March 2003. The Directors had received remuneration of approximately \$230,000 during the three months ended 31st March 2003. The Directors had not received any remuneration during the same corresponding period of financial year 2002 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 three months ended 31st March 2002. The Company has not granted any share option to any of its Directors and employees for each of the three months ended 31st March 2002 and 2003. 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 standards. The Group also provides difference training programmes to its senior management in order to update their management skills and techniques.

Prospects

The escalating trend in Mainland China's automobile industry will continue, with estimated vehicle output and sales estimated to reach 2 million units during the second quarter of year 2003. With China's accession to WTO, the Chinese government is expected to further liberalise the automobile sector and formulate various incentives and policies to encourage Chinese people to purchase cars. This bright future is luring over 40 multinational car manufacturers into the market. Management believes that these multinational car manufacturers will increase investment in their existing Mainland China Sino-foreign joint ventures and introduce new car models into Mainland China in the coming years. Among these companies, Shanghai Volkswagen, Shanghai General Motors, Dongfeng-Citroen and other major customers of the Group, account for more than 50% share of the market in Mainland China. As such, Sonavox is in an ideal position to capture the many new business opportunities arising in the future.

To further diversify market coverage, the Group will accelerate its development pace in overseas markets. Apart from Italy, the Group plans to expand its sales network by setting up sales offices in USA, Korea and Europe. Global car manufacturers, many of whom are the Group's long-standing partners, are pledging confidence towards the automobile industry in Mainland China. Management strongly believes that the Group will benefit from its sales network and long-term relationships with these renowned customers in the automobile industry. A strong foothold in Mainland China and overseas markets is expected to be established.

To capture opportunities arising in the home theatre loudspeaker systems markets in Mainland China and overseas, Sonavox will stay competitive by expanding research and development activities and allocating additional resources to developing new models while improving the quality, performance and functionality of the Group's major products.

The Group's management is aware of the recent outbreak of Severe Acute Respiratory Syndrome ("SARS") in Mainland China. Although SARS has not currently had any significant negative impact on the Group, management has contingent plan for SARS and will continue to monitor the situation closely.

OTHER INFORMATION

Directors' Interest in Shares

As at 31st March 2003, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

| Director | Other interests | Total interests |
|------------------------------------|-----------------|-----------------|
| Mr. Yang Tsu Ying (<i>Note</i>) | 240,000,000 | 240,000,000 |
| Mr. Yang Ching Yau (<i>Note</i>) | 240,000,000 | 240,000,000 |

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

Rights of Directors and Employees to Acquire Shares

During the three-month period ended 31st March 2003, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 31st March 2003, none of the Directors or the employees of the Group had any rights to acquire shares.

Substantial Shareholders

As at 31st March 2003, the register of interests is kept by the Company under Section 16(1) of the SDI Ordinance showing that the following parties are directly or indirectly interested in 10% or more of the nominal value of the shares of the Company:

| Name | Number of ordinary shares held | Percentage of interest |
|--|--------------------------------|------------------------|
| Newood Consultancy Limited (<i>Note</i>) | 240,000,000 | 75% |

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

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

Sponsor's Interests

As at 31st March 2003, the Company's sponsor, Deloitte & Touche Corporate Finance Ltd ("Deloitte"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

Purchase, Sale or Repurchase of the Company's Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the three-month period ended 31st March 2003.

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 (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.

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

Audit Committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Company.

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

In the audit committee meeting held on 12th May 2003, the unaudited results, major accounting and internal auditing issues of the Group for the three months ended 31st March 2003 were reviewed and reported to the Board.

Board Practices and Procedures

During the three months ended 31st March 2003, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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

Hong Kong, 13th May 2003