



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2003

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This report, for which the directors (the “Directors”) of Sonavox International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively "Sonavox" or the "Group") for the three-month and six-month periods ended 30th June 2003, together with the comparative figures for the corresponding periods in 2002 as follows:

	Notes	For the three months ended 30th June		For the six months ended 30th June	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	3	26,037	18,380	47,418	31,295
Cost of sales		(17,990)	(12,689)	(32,359)	(21,330)
Gross profit		8,047	5,691	15,059	9,965
Other revenue		67	–	162	50
Selling and distribution expenses		(1,520)	(767)	(2,706)	(1,778)
General and administrative expenses		(2,855)	(1,479)	(5,123)	(3,479)
Profit from operations		3,739	3,445	7,392	4,758
Finance costs		(195)	(150)	(304)	(267)
Profit before taxation	4	3,544	3,295	7,088	4,491
Taxation	5	(283)	(463)	(1,025)	(655)
Profit after taxation		3,261	2,832	6,063	3,836
Minority interests		(1,844)	(1,332)	(3,573)	(1,666)
Profit attributable to shareholders		<u>1,417</u>	<u>1,500</u>	<u>2,490</u>	<u>2,170</u>
Earnings per share – Basic (cents)	7	<u>0.443</u>	<u>0.625</u>	<u>0.778</u>	<u>0.904</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30th June 2003	31st December 2002
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Fixed assets		54,558	52,474
Current assets			
Inventories	8	18,155	13,227
Trade receivables	9	21,490	19,876
Prepayments, deposits and other current assets		1,869	2,159
Due from a minority shareholder of a subsidiary		6,298	943
Cash and bank deposits		39,629	41,492
Total current assets		<u>87,441</u>	<u>77,697</u>
Current liabilities			
Trade payables	10	(21,901)	(13,139)
Accruals and other payables		(1,913)	(8,271)
Short-term bank loans		(12,825)	(6,224)
Taxation payable		(1,427)	(1,963)
Total current liabilities		<u>(38,066)</u>	<u>(29,597)</u>
Net current assets		49,375	48,100
Total assets less current liabilities		103,933	100,574
Non-current liabilities			
Deferred tax liabilities	11	(1,721)	–
		<u>102,212</u>	<u>100,574</u>
Financed by:			
Share capital		3,200	3,200
Reserves		59,812	60,880
Shareholders' funds		63,012	64,080
Minority interests		39,200	36,494
		<u>102,212</u>	<u>100,574</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS (UNAUDITED)

Movements of the Group's shareholders' funds were as follows:

Note	Share	Share	Property	Statutory	Cumulative		Retained	Proposed	Total
	capital	premium	revaluation	reserves	Merger	translation	earnings	dividend	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	2,400	-	-	3,227	(2,400)	-	14,215	-	17,442
Profit for the six-month period	-	-	-	-	-	-	2,170	-	2,170
At 30th June 2002	<u>2,400</u>	<u>-</u>	<u>-</u>	<u>3,227</u>	<u>(2,400)</u>	<u>-</u>	<u>16,385</u>	<u>-</u>	<u>19,612</u>
At 1st January 2003	3,200	25,753	7,107	3,227	2,441	188	19,564	2,600	64,080
Profit for the six-month period	-	-	-	-	-	-	2,490	-	2,490
Payment of final dividend	-	-	-	-	-	-	-	(2,600)	(2,600)
Effect on adoption of SSAP 12 (Revised)	2	-	(878)	-	-	-	-	-	(878)
Cumulative translation adjustments	-	-	-	-	-	(80)	-	-	(80)
At 30th June 2003	<u>3,200</u>	<u>25,753</u>	<u>6,229</u>	<u>3,227</u>	<u>2,441</u>	<u>108</u>	<u>22,054</u>	<u>-</u>	<u>63,012</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Net cash inflow generated from operations	7,025	3,826
Interest paid	(304)	(267)
Mainland China enterprise income tax paid	(1,561)	(1,544)
Net cash inflow from operating activities	<u>5,160</u>	<u>2,015</u>
Investing activities		
Interest received	15	–
Purchase of fixed assets	(5,684)	(1,279)
Proceeds from disposal of fixed assets	–	171
Net cash outflow from investing activities	<u>(5,669)</u>	<u>(1,108)</u>
Net cash (outflow)/inflow before financing	<u>(509)</u>	<u>907</u>
Financing activities		
New short-term bank loans raised	6,601	8,283
Repayment of short-term bank loans	–	(4,570)
Amount due from a minority shareholder of a subsidiary	(5,355)	(4,459)
Payment of final dividend	(2,600)	–
Net cash outflow from financing	<u>(1,354)</u>	<u>(746)</u>
(Decrease)/Increase in cash and cash equivalents	(1,863)	161
Cash and cash equivalents at 1st January	<u>41,492</u>	<u>7,264</u>
Cash and cash equivalents at 30th June	<u>39,629</u>	<u>7,425</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL

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 unaudited condensed consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the six months ended 30th June 2002.

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 (Collectively "Mainland China" or the "PRC") and overseas.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The accounting policies and basis of preparation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2002 except that the Group has changed its accounting policy following its adoption of the new SSAP 12 (revised) issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the interim financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been resulted to conform to the changed policy. However, the adoption of SSAP 12 (revised) has no significant effect on the Group's results for the current or prior accounting periods and the Group's financial position as at 31st December 2002.

3. TURNOVER, REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of loudspeaker systems to customers in Mainland China and overseas. Accordingly, the Group has determined that geographical segments be presented as the primary reporting format.

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

	For the six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	47,418	31,295
Other revenue		
Interest income	15	50
Others	147	–
Total revenue	<u>47,580</u>	<u>31,345</u>

An analysis of geographical segments (unaudited) is as follows:

	For the six months ended 30th June 2003						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	USA HK\$'000	Europe HK\$'000	Eliminations HK\$'000	
Turnover*							
External sales	–	35,048	5,069	3,196	4,105	–	47,418
Inter-segment sales	4,641	8,722	–	–	–	(13,363)	–
Total turnover	<u>4,641</u>	<u>43,770</u>	<u>5,069</u>	<u>3,196</u>	<u>4,105</u>	<u>(13,363)</u>	<u>47,418</u>
Segment result	<u>(1,274)</u>	<u>6,630</u>	<u>768</u>	<u>484</u>	<u>622</u>	<u>–</u>	7,230
Unallocated income							162
Finance costs							(304)
Profit before taxation							7,088
Taxation							(1,025)
Profit after taxation							6,063
Minority interests							(3,573)
Profit attributable to shareholders							<u>2,490</u>
Capital expenditure	–	5,684	–	–	–	–	5,684
Depreciation	–	3,600	–	–	–	–	3,600

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

An analysis of geographical segments (unaudited) is as follows:

	For the six months ended 30th June 2002						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	USA HK\$'000	Europe HK\$'000	Eliminations HK\$'000	
Turnover*							
External sales	–	23,670	5,264	2,047	314	–	31,295
Inter-segment sales	–	5,023	–	–	–	(5,023)	–
Total turnover	–	28,693	5,264	2,047	314	(5,023)	31,295
Segment result	–	3,720	682	265	41	–	4,708
Unallocated income							50
Finance costs							(267)
Profit before taxation							4,491
Taxation							(655)
Profit after taxation							3,836
Minority interests							(1,666)
Profit attributable to shareholders							2,170
Capital expenditure	–	1,279	–	–	–	–	1,279
Depreciation	–	3,567	–	–	–	–	3,567

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

4. PROFIT BEFORE TAXATION

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land and buildings for the six-month periods ended 30th June 2002 and 2003. Depreciation and amortisation of approximately HK\$3,567,000 and HK\$3,600,000 were provided for fixed assets during the six-month periods ended 30th June 2002 and 2003 respectively.

5. TAXATION

	For the three months ended 30th June		For the six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China enterprise income tax (unaudited)	283	463	1,025	655

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 Island, accordingly, is exempt 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 profits (2002: Nil) for the subsidiaries operating in Hong Kong during the six-month period.

6. INTERIM DIVIDEND

To retain resources for future expansion, the Directors do not recommend the payment of any interim dividend for the six months ended 30th June 2003 (2002: Nil).

7. EARNINGS PER SHARE

The calculation of the earnings per share for the three months and the six months ended 30th June 2003 is based on the respective unaudited consolidated profit attributable to shareholders of approximately HK\$1,417,000 and HK\$2,490,000 respectively (three-month and six-month periods ended 30th June 2002: approximately HK\$1,500,000 and HK\$2,170,000 respectively) and the weighted average number of 320,000,000 ordinary shares outstanding during the three-month and the six-month periods ended 30th June 2003 (three-month and six-month periods ended 30th June 2002: 240,000,000 ordinary shares deemed to be in issue during the three-month and the six-month periods ended 30th June 2002, on the basis of presentation relating to the Reorganisation as described in Note 1).

8. INVENTORIES

Inventories consisted of:

	30th June 2003 HK\$'000 (unaudited)	31st December 2002 HK\$'000 (audited)
Raw materials	4,681	4,385
Work-in-progress	1,832	1,320
Finished goods	<u>11,642</u>	<u>7,522</u>
	<u>18,155</u>	<u>13,227</u>

As 30th June 2003 and 31st December 2002, there were no inventories stated at net realisable value.

9. TRADE RECEIVABLES

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

Aging analysis of the Group's trade receivables was as follows:

	30th June 2003 HK\$'000 (unaudited)	31st December 2002 HK\$'000 (audited)
0 – 30 days	11,037	11,151
31 – 60 days	3,440	5,427
61 – 90 days	4,503	1,593
91 – 180 days	1,955	1,675
181 – 360 days	440	340
Over 360 days	1,125	700
	<hr/>	<hr/>
	22,500	20,886
Less: Provision for bad and doubtful debts	(1,010)	(1,010)
	<hr/>	<hr/>
	21,490	19,876
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10. TRADE PAYABLES

Aging analysis of the Group's trade payables was as follows:

	30th June 2003 HK\$'000 (unaudited)	31st December 2002 HK\$'000 (audited)
0 – 30 days	6,224	5,570
31 – 60 days	5,625	3,011
61 – 90 days	5,227	2,670
91 – 180 days	4,618	1,380
181 – 360 days	55	372
Over 360 days	152	136
	<hr/>	<hr/>
	21,901	13,139
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11. DEFERRED TAXATION

Deferred tax liabilities represented the taxation effect of the following temporary differences:

	30th June 2003 HK\$'000 (unaudited)	31st December 2002 HK\$'000 (audited)
Upward revaluation adjustments on land and buildings	1,721	–
	<hr/> <hr/>	<hr/> <hr/>

12. CONTINGENT LIABILITIES

At 30th June 2003, the Group has capital commitment and contingent liabilities of approximately HK\$1,141,000 (At 31st December 2002: Nil).

BUSINESS REVIEW

Loudspeaker systems for automobiles are an integral component in the automobile industry. In June 2003, 179,200 cars were produced in the PRC, up 82.9% compared to June last year, while total car production in the first six months of the year was 895,500 units, increased by 103% compared to the car production in the same period past year. The performance of automobile industry is outshining other industry sectors in the PRC. This accelerating trend kept the Group on track, generating sustained growth in the face of the weak environment which dampened by the outbreak of Severe Acute Respiratory Syndrome ("SARS").

These promising results were facilitated by the leading automobile players in Mainland China, including Shanghai General Motors Co., Ltd. ("SGM") and Shanghai Volkswagen Automotive Co. Ltd. ("SVW"), who launched new automobile models, such as higher performance Buick models by SGM and two-door Gol model by SVW. These have boosted the Group's sales and marketing activities as Sonavox provides them with high quality automobile loudspeaker systems, thus strengthening the revenue base of the Group.

The Group continues to reap fruitful results not only in Mainland China but in overseas markets. The Group's overseas marketing strategy has proven to be success. Revenue generated from overseas markets was substantially increased by 62%. Management plans to establish sales representative offices in the U.S.A., Korea and Europe in order to provide after sales services in a timely manner.

The successful obtaining of ISO/TS16949 and ISO14001 certifications during the review period, further bolstered confidence among existing customers on the one hand, while fulfilling basic requirements of worldwide leading automobile manufacturers such as DaimlerChrysler, General Motors and Ford Motor Company on the other hand. These requirements include continuous improvement, emphasis of defect prevention and the reduction of variation and waste in the automobile supply chain. Securing these accreditations has not only reinforced the Group's reputation in manufacturing leading-edge loudspeaker system products, but has also attracted customers who have strong potential to bring additional revenue streams to the Group.

Regarding the prospects and strategies for home theatres loudspeaker systems, Sonavox's recent strategy is to pursue a higher market share in the high-priced, high-quality with more profitable areas, such as traditional Hi-Fi component systems and home theatre systems. The Group will continue to focus on the home theatre systems market, which is expanding at a remarkable rate due to increased availability of DVD titles. Furthermore, the Group is placing extra resources to develop the latest models with additional functionality for major products, to cater for the requirements of its major customers such as LG and Kenwood.

FINANCIAL REVIEW

Sales of loudspeaker systems in Mainland China are amazingly brisk, which was fully reflected in Sonavox's satisfactory sales of loudspeaker systems during the six months ended 30th June 2003. The Group achieved a turnover of approximately HK\$47,418,000, representing a growth of 52% as compared to the same period last year. Profit attributable to shareholders surged 15% to approximately HK\$2,490,000.

The Mainland China remains the Group's largest market, accounting for 74% of total turnover. The Group has also gained sales momentum in its overseas markets, with unremitting efforts being made in Japan, the U.S.A and Europe. During the period under review, revenue generated from these markets increased 62% as compared to the corresponding period in 2002, reaching approximately HK\$12,370,000 and accounting for 26% of the Group's total turnover.

Compared with the same corresponding period of 2002, the Group's total expenses for the six months ended 30th June 2003 increased by 51% from approximately HK\$27,509,000 to HK\$41,517,000. The increase was mainly attributable to further enhancement of vertical integration of manufacturing operations. In addition, the launch of new loudspeaker systems for overseas markets during the six-month period required the Group to incur more selling and distribution expenses for higher level of market penetration in overseas markets. The Group also incurred additional general and administrative expenses of approximately HK\$1,370,000 as a result of becoming a listed company.

Liquidity and Financial Resources

During the six-month period ended 30th June 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 30th June 2003, the Group had cash and bank deposits of approximately HK\$39,629,000. Compared with the performance in term of current ratio (current assets divided by current liabilities) and gearing ratio (total current liabilities divided by shareholders' equity) as at 30th June 2003 and 31st December 2002, the Group's current ratio was reduced from 2.60 to 2.30 and gearing ratio was increased from 0.46 to 0.59. As at 30th June 2003, the Group had total current liabilities amounting to approximately HK\$38,066,000 including short-term bank loans of approximately HK\$12,825,000 bearing interest at rates ranging from 4.6% to 5.8% per annum with repayment within a year. By taking the advantage of low interest costs, the Group obtained new short-term bank loans of approximately HK\$6,601,000 during the six-month period. With its stable growth of asset base and profitability together with keen support from the banks and investors, the Directors believe that the Group's cash and bank deposits are sufficient for future business expansion.

Treasury Policies

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 and U.S. dollars. The Group's liquidity and financial arrangements are reviewed regularly by the Directors and senior management.

Capital Commitment and Contingent Liabilities

As at 30th June 2003, the Group has capital commitment and contingent liabilities of approximately HK\$1,141,000.

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

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

Banking Facilities and Pledge of Assets

As at 30th June 2003, 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\$1,320,000. These facilities were secured by the Group's land and buildings together with a corporate guarantee given by a PRC subsidiary. The carrying value of land and buildings was approximately HK\$23,375,000 as at 30th June 2003.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st December 2002 and 30th June 2003 is set out below:

	As at 30th June 2003	31st December 2002
Management and administration	50	42
Sales and marketing	18	17
Manufacturing and operations	569	560
Research and development	34	36
Quality assurance and quality control	69	70
Finance and accounting	10	10
Total	<u>750</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 comply 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 six months ended 30th June 2003 increased to approximately HK\$6,736,000 (2002: HK\$4,820,000) due to the fact that the Group revised salary level of each staff and hired additional workers and administrative staff in Mainland China during the period. The Directors had received remuneration of approximately HK\$440,000 during the period. The Directors had not received any remuneration during the same corresponding period of 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 six-month period ended 30th June 2002. The Company has not granted any share option to any of its Directors and employees for each of the six-month periods ended 30th June 2002 and 2003.

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

The Group continues to have an optimistic view on automobile industry, supported by the latest survey conducted by the Guangzhou Municipal Bureau of Statistics. According to the survey, from the second half of 2003 to the end of 2004, the number of families with car-purchase plans account for 5% of the total families surveyed, up 2.2% from last year. Additionally, to accelerate its developments in China, Volkswagen AG, Germany, announced that it will increase its investment in China in the coming five years, to establish additional factories to expand its production capacity and launch new automobile models, as reported by a German news agency.

As such, automobile industry is expected to remain auspicious. Building on its strengths, Sonavox will take advantage of this new wave in the automobile industry, to bring the Group's operations up to new levels of capabilities, quality and efficiency. More specifically, the Group will concentrate on enriching product variety to match the needs of the new automobile models. The Group will also enhance its capabilities in the manufacturing of high-end loudspeaker systems for home theatres.

The Group is currently eyeing on the worldwide markets rather than limiting itself to Mainland China market. Management will continuously increase its marketing effort to promote the corporate image and the Group's capabilities in overseas markets, attracting leading overseas home audio and automobile market players.

With the aim of maintaining good quality standards and meeting customers' expectations, the Group would put in more resources in employee's training, knowledge management and corporate governance.

In view of the Group's excellent market position and strong competitive-edge, the Directors strongly believe that Sonavox will gain even greater advancements in the future and bring better return to the shareholders.

OTHER INFORMATION

Directors' and Chief Executive's Interest and Short Positions in the Shares and Debentures

As at 30th June 2003, the interests and short positions of the Directors and Chief Executives in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Director	Type of interests	Capacity	Number of Shares	Percentage of interest
Mr. Yang Tsu Ying (Note)	Corporate	Interest of a controlled corporation	240,000,000	75%
Mr. Yang Ching Yau (Note)	Corporate	Interest of a controlled corporation	240,000,000	75%

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.

Save as disclosed in this paragraph, as at 30th June 2003, none of the Directors and Chief Executives had interests or short positions in any securities or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in the Shares

So far as was known to any Director of the Company, as at 30th June 2003, the persons or companies (not being a Director of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in the Shares

Name	Capacity	Number of ordinary shares held	Percentage of interest
Newood Consultancy Limited (Note 1)	Beneficial owner	240,000,000	75%
Silver Way Limited (Note 1)	Interest of a controlled corporation	240,000,000	75%
HSBC International Trustee Limited (Note 1)	Trustee	240,000,000	75%
Yang Tsu Ying (Note 1)	Beneficiary of a trust	240,000,000	75%
Yang Ching Yau (Note 1)	Beneficiary of a trust	240,000,000	75%
Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	240,000,000	75%
Helen Lee (Note 3)	Interest of spouse	240,000,000	75%

Notes:

- (1) Newood Consultancy Limited is a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.
- (2) Madam Yang Chuang Ching-Hsiu is the spouse of Mr. Yang Tsu Ying and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 Shares in which Mr. Yang Tsu Ying is interested.
- (3) Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 Shares in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 30th June 2003, the Directors were not aware of any other person or company who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Other Interests Discloseable under the SFO

Save as disclosed in the preceding paragraphs headed “Directors’ and Chief Executive’s Interests or Short Positions in the Shares and Debentures” and “Substantial Shareholders’ Interests in the Shares”, so far as is known to the Directors, there is no other person or company who has an interest or short position in the Shares, underlying Shares of the Company that is discloseable under the SFO.

Rights of Directors and Employees to Acquire Shares

Pursuant to a resolution passed on 8th July 2002, the Company has adopted the share option scheme. 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 15 July 2002. During the six-month period ended 30th June 2003, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 30th June 2003, none of the Directors or the employees of the Group had any rights to acquire shares.

Sponsor’s Interests

As at 30th June 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 six-month period ended 30th June 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 8th August 2003, the unaudited results and the unaudited financial position, major accounting and internal auditing issues of the Group for the six months ended 30th June 2003 were reviewed and reported to the Board of Directors.

Comparison of Business Objectives with Actual Business Progress

On 19th July 2002, the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$31.5 million from the new issue of shares by way of placing. Up to 30th June 2003, the Group has applied the net proceeds as follows:

	Amount extracted from the prospectus dated 15th July 2002 <i>HK\$ (in million)</i>	Actual amount used up to 30th June 2003 <i>HK\$ (in million)</i>	Remaining net proceeds <i>HK\$ (in million)</i>
Strategic development and business improvement	2.9	0.7	2.2
Research and development	7.8	1.5	6.3
Sales and marketing strategy	7.2	1.3	5.9
Expansion and alliance	13.6	5.9	7.7
Total	31.5	9.4	22.1

The remaining net proceeds as at 30th June 2003 was approximately HK\$22.1 million, which have been placed as short-term interest bearing deposit with banks in Hong Kong and Mainland China.

Comparisons of the actual business progress to the business objectives set out in the prospectus for the period from 1st January 2003 to 30th June 2003 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 and improvement works are in progress as planned
Organise individual training programmes to improve managerial and technical skills of the senior management staff	Continuous individual training programmes for senior management and employee 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
Improve internal control systems	Internal control systems for production have been improved and in operation. Improvement works for other operations 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") and the use of digital-ready loudspeaker systems in automobiles	The research is deferred due to change of technological requirements and market condition
Perform feasibility studies on developing new models and technologically advanced products	Research and development staff has commenced to perform feasibility studies with Mr. Dave Clark, an independent acoustic consultant in Detroit, Michigan, U.S.A.
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 and tested internally by research and development department

Business objectives as stated in the prospectus

Perform environmental simulation tests for automobile loudspeaker systems by using specialised vehicles with built-in audio sensors

Sales and marketing strategy

Continue to explore overseas markets and continue to promote and reinforce the Group's corporate image and capabilities in the PRC market and overseas markets

Set up sales offices and technical liaison and warehousing centres in developed cities of the PRC and in the overseas markets

Commence marketing campaigns to promote brand awareness of loudspeaker products

Employ at least four additional staff with university degrees to carry out sales and marketing plans

Expansion and alliance

Expand and upgrade production facilities and purchase equipment to meet the increase in demand for loudspeaker systems for automobiles

Further expansion in the production process so that vertical integration can be further enhanced

Commence the construction of new production facilities in other cities in the PRC

Actual business progress/change in business objectives

The environmental simulation tests were in progress as planned. Certain car models manufactured by SVW and SGM were tested

Due to outbreak of SARS in Mainland China and other countries, sales and marketing activities were deferred

Implementation plans are review and will defer due to change of market condition and SARS outbreak in March 2003

Plan for marketing campaigns is under review

Potential applicants for carry out sales and marketing plan are under the process of recruitment

Two new production lines for loudspeaker systems used in automobiles were installed as planned

Vertical integration expansion plan has been carried out in mid of May 2003

Sites in Suzhou are under review

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.

Board Practices and Procedures

During the six months ended 30th June 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, 11th August 2003