



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(incorporated in the Cayman Islands with limited liability)



Annual Report 2003

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

YANG Tsu Ying (*Chairman*)
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
21st Floor
Wing On Centre
111 Connaught Road
Central
Hong Kong

AUDITORS

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

STOCK CODE

8226

WEBSITE OF SUBSIDIARIES

www.chinasonavox.com



CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to present the audited results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the year ended 31st December 2003 to our shareholders.

Following the second year of Sonavox's listing on GEM, we continued our business strategies, making every effort to pursue our loudspeaker systems research and development ("R&D"), explore new markets and implement our production integration plan. The Group took advantage of the booming economy in the People's Republic of China ("PRC" or "Mainland China"), which last year was a particularly remarkable year for the automobile industry in the PRC. During the year 2003, 4,443,700 vehicle units of various types rolled off the assembly line in Mainland China, the fastest-growing auto market in the world, with a year-on-year increase of 35.2% according to the China Association of Automobile Manufacturers ("CAAM"). Of this vehicle output, total production for passenger cars in Mainland China surged 83.25% year-on-year to 2,018,900 units. Riding on this immense business opportunity, the Group recorded ongoing growth of more than 50% in sale of loudspeaker systems for automobiles to approximately HK\$96 million.

Building on our strong production capabilities, solid foundations in R&D and established market recognition in the PRC and overseas, the Group continued to explore business opportunities overseas to further consolidate our leading position in the automobile loudspeaker systems industry. During the year ended 31st December 2003, the Group successfully developed loudspeaker systems for automobiles manufactured by Ford Motor Company, German Volkswagen and Shanghai General Motors, the world's leading automobile manufacturers. With the success of these projects, significant contribution will be made to the Group's turnover in the coming years.

Business performance in the home theatre sector remained stable. By successfully developing a series of advanced loudspeakers, such as loudspeaker systems for public announcement (PA), multimedia electronic devices and subwoofer systems, the Group successfully achieved steady revenues in our home theatre loudspeaker systems business. During the year, the Group successfully developed loudspeaker systems used in audio products manufactured by Yamaha Electronics Corporation ("Yamaha") Japan, we believe that a stable growth of revenue generated from the sale of loudspeaker systems for home theatres can be sustained in the coming years.

PROSPECTS

Looking ahead, we are highly confident in the future of the automobile industry, particularly in the PRC. According to a research report published by AUTOFACTS Global Automotive Outlook, by 2004, we believe that the PRC automobile output will become one of the largest automobile producers in the world with production volumes of more than 3 million units a year, nurturing immense business opportunities for our quality and high performance loudspeaker systems for automobiles. Leveraging our solid relationships with leading automobile manufacturers in Mainland China and overseas, together with the newly completed project with Ford Motor Company in the U.S., we are well positioned to grow with the automobile industry and capture the immense business opportunities ahead.

CHAIRMAN'S STATEMENT

Turning to the overseas markets, we also hold an advantageous position in expanding the business in the U.S., Japan, Europe and Asia-Pacific region. On one hand, the Group's past experiences to carry out projects with renowned automakers in the overseas is the foundation and one of the key success factors for further opening up the huge automobile overseas markets, and adding another important revenue driver for the Group into the future. On the other hand, the securing of new projects from certain renowned audio manufacturers in Japan for our professional home theatre systems demonstrates our total competence in the developing and manufacturing of quality loudspeaker systems for home theatres.

Taking into consideration of the PRC's competitive cost of production and its fast-improving quality of standard in production, the PRC is rapidly attracting the attention of overseas automakers for further investments in the years to come, further boosting the export volume of automobiles made in Mainland China to a record high and paving way for our business expansion.

2004 will be a year full of opportunities and challenges. I am highly encouraged that our Group, drawing on our persistent quality and attention to detail, is well prepared to capture the immense business opportunities ahead.

APPRECIATION

Finally, 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 gratitude to all our staff for their hard work and contribution to the Group in the past year. We determined to pursue further growth in the future to bring in better returns to our shareholders.

By Order of the Board

Yang Tsu Ying

Chairman

Hong Kong, 22nd March 2004



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's financial highlights are as follows:

	(As restated)		(% Change between 2003 and 2002)
	2003 HK\$'000	2002 HK\$'000	
Turnover	115,348	76,656	50%
Gross profit	33,939	25,874	31%
Profit from operations	17,887	15,128	18%
Profit attributable to shareholders	6,363	5,864	9%
Cash dividend	2,912	2,600	12%
Total assets	154,834	132,602	17%
Total assets less current liabilities	108,354	103,005	5%
Shareholders' funds	67,172	63,402	6%
<i>Business performance ratios:</i>			
Return on total assets (%)	11.6%	11.4%	2%
Return on Shareholders' funds (%)	9.5%	9.2%	3%
Gross profit margin (%)	29.4%	33.8%	(13%)
Cash dividend payout (%)	45.8%	44.3%	3%
Current ratio	1.98	2.63	(25%)
Quick ratio	1.68	2.18	(23%)
Gearing ratio	0.43	0.29	48%

Definitions for business performance ratios:

Return on total assets	$\frac{\text{Profit from operations}}{\text{Total assets}}$	x 100%
Return on shareholders' funds	$\frac{\text{Profit attributable to shareholders}}{\text{Shareholders' funds}}$	x 100%
Gross profit margin	$\frac{\text{Gross profit}}{\text{Turnover}}$	x 100%
Cash dividend payout	$\frac{\text{Cash dividend}}{\text{Profit attributable to shareholders}}$	x 100%
Current ratio	$\frac{\text{Total current assets}}{\text{Total current liabilities}}$	
Quick ratio	$\frac{\text{Total current assets excluding inventories}}{\text{Total current liabilities}}$	
Gearing ratio	$\frac{\text{Total current liabilities}}{\text{Total assets less total current liabilities}}$	

MANAGEMENT DISCUSSION AND ANALYSIS

Triggered by the growth in the automobile industry, the Group achieved a turnover of approximately HK\$115,348,000, representing a growth of approximately 50% for the year ended 31st December 2003. The gross profit margin decreased from approximately 34% to 29% due to increased expenses in direct labour and indirect labour costs as a result of the change in Mainland China Labour Law and increased expenses in testing and research and development (“R&D”) in relation to product quality enhancement. Management believes that the R&D resources put in will bring fruitful returns for the Group in the near future.

During the year, revenue from overseas markets surged from approximately HK\$17,108,000 to approximately HK\$28,031,000, representing a significant increase of approximately 64%. The growth was mainly due to the increased orders placed by Fiat in Italy and new orders secured from certain home theatres manufacturers in the U.S. As a result, sale of loudspeaker systems to customers in the U.S. and Europe recorded encouraging sales increase of 145% and 109% respectively, though Japan continued to contribute the largest portion amongst the overseas markets, accounting for approximately 9% of the Group’s total turnover.

The Group’s total expenses in 2003 increased by approximately 58%, from approximately HK\$62 million to approximately HK\$98 million. The increase was mainly attributable to the Group’s expanding business operations and additional expenses of approximately more than HK\$2 million attributable to the change in labour regulations in the PRC and resulted increase in wages and salaries. New projects for the year 2003 also incurred more than HK\$5 million additional expenses in R&D, testing and other quality enhancement activities. One year listing compliance expenses incurred approximately HK\$3.1 million, representing 82% increase compared with total listing compliance expenses of approximately HK\$1.7 million incurred for the six-months period ended 31st December 2002 since the Group listed on GEM on 19th July 2002. Despite the increase in expenses, profit attributable to shareholders increased by approximately 9% to approximately HK\$6,363,000.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

During 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 by short-term bank loans granted by the principal bank in Mainland China. As at 31st December 2003, the Group had cash and bank deposits of approximately HK\$38,097,000.

As the Group has been continuously expanding its loudspeaker business in Mainland China and overseas markets, as well as implementing its production integration plan, capital expenditure of more than HK\$10 million was incurred during the year. As a result, the Group’s current ratio reduced from 2.63 to 1.98 and quick ratio reduced from 2.18 to 1.68 as at 31st December 2003. Taking the advantage of low interest expense incurred by borrowing short-term bank loans in the PRC, the Group utilised its banking facilities granted by a PRC bank to approximately HK\$12.8 million during the year, as a result, gearing ratio increased from 0.29 to 0.43 as at 31st December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group adopts conservative treasury policies in managing its cash and financial matters in Hong Kong and Mainland China. Currently, cash and bank deposits are placed in interest-bearing bank accounts in Hong Kong and Mainland China denominated in Hong Kong dollars, Renminbi ("RMB"), U.S. dollars and Euro 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 disclosed in note 25 to the accounts, the Group did not have any significant contingent liabilities as at 31st December 2003.

MATERIAL ACQUISITION/DISPOSALS AND SIGNIFICANT INVESTMENT

The Group had no material acquisitions, disposals and investment during the year. At present, the Group has no plan for material acquisitions or disposal of significant investments.

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, U.S. dollars and Euro dollars during the year. Therefore, the Group was not exposed to any significant fluctuations in exchange rates during the year.

BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December 2003, the Group had aggregate banking facilities of approximately HK\$14,145,000 (equivalent to RMB15,000,000) for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$1,320,000 (equivalent to RMB1,400,000). These facilities were secured by the leasehold land and buildings owned by certain PRC subsidiaries of the Group together with a corporate guarantee given by a PRC subsidiary. The valuation of the Group's leasehold land and buildings was approximately HK\$36,777,000 (equivalent to RMB39,000,000) as at 31st December 2003.

DIVIDEND

The Directors proposed to pay a final dividend of HK0.91 cent per share to the shareholders whose names appear on the register of members on 28th April 2004 (Wednesday). The dividend will be payable on 7th June 2004 (Monday).

The register of members of the Company will be closed from 26th April 2004 (Monday) to 28th April 2004 (Wednesday), both days inclusive, during which period the transfer of shares will be effected. In order to be qualified for the above-mentioned dividend, all share transfers accompanied with relevant share certificates must be lodged with the Company's share registrar, Standard Registrars Limited at 28th Floor, BEA Harbour View Centre, No. 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 23rd April 2004 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Recognised as the engine for economic growth, the PRC automobile market continued to experience strong growth during the year.

During the year, the Group continued to provide quality and high performance loudspeaker systems for leading automobile players in the PRC, including Shanghai General Motors Co., Ltd. ("SGM") and Shanghai Volkswagen Automotive Co., Ltd ("SVW"). In view of the Group's high quality products, these international automobile brand names steadily increased their sales orders placed to the Group.

In overseas market, the Group achieved encouraging results, expanding our geographical coverage in both the U.S. and the European markets. Sales in the U.S. and Europe recorded significant increase of 145% and 109% respectively. The Group's marketing strategy in other overseas markets has also proven to be a success. Revenue generated from overseas markets increased substantially from approximately HK\$17,108,000 in 2002 to approximately HK\$28,031,000 in 2003. Of the three major overseas markets (Japan, U.S. and Europe), Japan contributed the largest portion of revenue to the Group, accounting for approximately 36% of the Group's total overseas revenue. In view of the increasing revenue to be generated from the sales of loudspeaker systems for Ford Motors in the U.S. and Fiat in Italy, the Directors believed that the U.S. and Europe markets will be picking up steadily and generating a more evenly distributed revenue basis for the Group's overseas markets in the foreseeable future.

The Group's service center in Italy has also been reaping fruitful results. During the year, an additional revenue of more than HK\$4 million was generated. The Group is confident that the service centre, which provides after-sales services and just-in-time goods deliveries, will be achieving even better results in the coming financial year.

As one of the major loudspeaker systems manufacturers in the automobile industry, we place strong emphasis on R&D. During the year, more than 70 different loudspeaker systems were successfully developed to the Group's customers. Total R&D and testing expenses amounted to approximately 4% of total expenses in 2003, representing a substantial increase of approximately 10 times compared with that of the year 2002. As further evidence of our stringent quality control, we successfully acquired ISO 14001 and ISO/TS 16949 quality certifications during the year. These professional qualifications demonstrate our stringent quality controls on environmental management systems and quality management systems required by automobile manufacturers.

With regard to the Group's loudspeaker systems for home theatres, turnover increased from approximately HK\$13,568,000 to approximately HK\$19,195,000, representing a significant increase of approximately 41%. During the year, we committed much of our resources on high-priced, high-quality loudspeaker systems, including commercial PA systems and professional loudspeaker systems for discos, music halls and theatres, which command a stable profit stream. During the year, the Group cooperated with certain leading audio distributors for its overseas distribution, paving the way for our further expansion in overseas markets.

MANAGEMENT DISCUSSION AND ANALYSIS

NUMBER OF EMPLOYEES

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

	2003	2002
Management and administration	41	41
Sales and marketing	20	17
Manufacturing and operations	809	560
Research and development	32	36
Quality assurance and quality control	67	70
Finance and accounting	11	11
Total	980	735

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 awarded to eligible employees by the assessment of individual's performance and by reference to the Group's business performance.

The Group has maintained good staff 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 social 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 2003 increased to approximately HK\$16,293,000 (2002: approximately HK\$11,229,000) because the Group adjusted its salary level and Mainland China Labour Law had changed in the year. The Directors had received remuneration of approximately HK\$930,000 (2002: approximately HK\$416,000) during the year ended 31st December 2003. The Company has not granted any share option to any of its Directors and employees for the year ended 31st December 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 different training programmes to its senior management and R&D staff in order to update their management skills and techniques.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS

According to experts from the China Association of Automobile Manufacturers (“CAAM”), automobiles total output is expected to be approximately 5.10 million units in 2004, an increase of approximately 20% over the year 2003. This estimated output includes 2.50 to 2.62 million passenger cars with a growth rate of nearly 50%. Passenger cars are expected to continue leading the total vehicle output growth in the year 2004 with an increasing number of individual and corporate buyers. Recently, automakers are exporting automobiles from their PRC factories to the Asia-Pacific regions. The Directors believe that PRC automakers are possibly exporting automobiles to the U.S. and European markets in the foreseeable future. As a result, the huge production volumes in the PRC have strengthened its position as one of the largest automobile producers in the world.

Under the above-mentioned market situation, the Group has been able to capitalise on this market boom, securing a number of new projects from well-known automobile manufacturers in the overseas. Taking these key revenue drivers together with the Group’s capabilities into account, the Group will strive for significant increases in both turnover and profit in 2004.

To seize the immense business opportunities ahead, the Group plans to expand the production capacities and upgrade the production lines. We will also be investing more resources in implementing vertical integrated production plans. Apart from the existing production capabilities, the Group will further implement its vertical integration plans in the coming years. These plans will not only stabilise the Group’s production cost, improve product delivery time, ensure quality consistency and reliability, but also capture higher profit margins.

As the only loudspeaker systems for automobiles manufacturer in the PRC with QS9000 (U.S.), VDA6, Part 1 (Europe), ISO/ TS 16949 and ISO 14001 accreditations for design and manufacture of loudspeaker systems for automobiles, the Group is advantageously positioned to seize the vast business opportunities in both the PRC and overseas markets. The Directors are confident that Sonavox will achieve even better results in the next financial year, bringing satisfactory returns to shareholders.

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yang Tsu Ying, aged 69, 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 the PRC. He 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 34, 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 loudspeaker systems. He is responsible for the sales and marketing, 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 39, 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 had worked for Polaris Securities (Hong Kong) Limited as a dealing director and an investment adviser registered under the Securities Ordinance. Mr. Yiu was also a director of Polaris Finance Company Limited.

Mr. Wong Kai Tung, Simon, aged 37, is an independent non-executive Director. Mr. Wong had worked for VC CEF Capital Limited as director and was responsible for corporate finance advisory services in the Greater China area. Mr. Wong has over 10 years of corporate and investment banking experience with major international banks. Mr. Wong holds a bachelor's degree in arts (Honour) 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 44, 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. He has extensive experience in enterprise management and has over 10 years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無線電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in the PRC and overseas.

Mr. Pan Hui Hua, aged 47, is the production manager and assistant general 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 32, 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.

FINANCIAL SUMMARY

The following is a summary of the published consolidated profit and loss accounts and balance sheets of the Group:

1 CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	(As restated)			2003 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
Turnover	50,913	60,498	76,656	115,348
Cost of sales	(35,373)	(42,303)	(50,782)	(81,409)
Gross profit	15,540	18,195	25,874	33,939
Other revenue	446	735	244	231
Selling and distribution expenses	(1,298)	(1,569)	(4,123)	(4,922)
General and administrative expenses	(3,101)	(3,967)	(6,867)	(11,361)
Profit from operations	11,587	13,394	15,128	17,887
Finance costs	(518)	(535)	(536)	(684)
Profit before taxation	11,069	12,859	14,592	17,203
Taxation	(309)	(1,400)	(1,402)	(1,688)
Profit after taxation	10,760	11,459	13,190	15,515
Minority interests	(5,478)	(5,410)	(7,326)	(9,152)
Profit attributable to shareholders	5,282	6,049	5,864	6,363

2 CONSOLIDATED BALANCE SHEETS

	(As restated)			2003 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
Total assets	101,567	76,672	132,602	154,834
Total liabilities	(51,976)	(33,850)	(33,359)	(50,293)
Total assets less liabilities	49,591	42,822	99,243	104,541
Minority interests	(38,198)	(25,380)	(35,841)	(37,369)
Net assets	11,393	17,442	63,402	67,172

Notes:

The consolidated profit and loss accounts of the Group for the years ended 31st December 2000, 2001 and 2002, the consolidated balance sheets as at 31st December 2000, 2001 and 2002 were prepared on the assumption that the current structure of the Group had been in existence throughout those years.

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting the annual report together with the audited accounts of Sonavox International Holdings Limited (hereinafter as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31st December 2003.

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.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group formed after the completion of the Group Reorganisation on 8th July 2002.

The shares of the Company have been listed on GEM since 19th July 2002.

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 the People’s Republic of China (“Mainland China”) and overseas markets.

An analysis of the Group’s performance by business and geographical segments is set out in Note 2 to the accounts.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2003, the five largest customers accounted for approximately 58% of the Group’s total turnover and the five largest suppliers of the Group accounted for approximately 39% 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 11% 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 2003 are set out in the consolidated profit and loss account on page 25.

The Directors recommend the payment of final dividend of HK0.91 cents per share, totaling HK\$2,912,000 for the year ended 31st December 2003. (2002: HK\$2,600,000).

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 19 to the accounts.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 21 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2003 amounted to approximately HK\$58,112,000 (2002: 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 12 to the accounts.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 11 to the accounts. 2db

COMMITMENTS

Particulars of commitments as at 31st December 2003 are set out in Note 25 to the accounts. 4db

RETIREMENT PLANS

Details of the retirement plans are set out in Note 26 to the accounts.

CONNECTED TRANSACTIONS

During the year ended 31st December 2003, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("the GEM Listing Rules").

REPORT OF THE DIRECTORS

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
Mr. Yang Ching Yau

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yiu Chi Wah
Mr. Wong Kai Tung, Simon

In accordance with the Articles of Association of the Company, Mr. Yiu Chi Wah 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 profit 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 terminable by the Group within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES OR DEBENTURES

As at 31st December 2003, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 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 Newwood 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 31st December 2003, none of the Directors and Chief Executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director of the Company, as at 31st December 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 to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% 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 (<i>Note 1</i>)	Beneficial owner	240,000,000	75%
Silver Way Limited (<i>Note 1</i>)	Interest of a controlled corporation	240,000,000	75%
HSBC International Trustee Limited (<i>Note 1</i>)	Trustee	240,000,000	75%
Yang Tsu Ying (<i>Note 1</i>)	Beneficiary of a trust	240,000,000	75%
Yang Ching Yau (<i>Note 1</i>)	Beneficiary of a trust	240,000,000	75%
Yang Chuang Ching-Hsiu (<i>Note 2</i>)	Interest of spouse	240,000,000	75%
Helen Lee (<i>Note 3</i>)	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 31st December 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 to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO, or who was interested in 5% 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.

REPORT OF THE DIRECTORS

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

DIRECTORS’ INTEREST IN COMPETING BUSINESS

The Group’s ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Limited, 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.

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

A share option scheme was adopted by the Company on 8th July 2002 (the “Share Option Scheme”).

The purpose of the Share Option Scheme is to grant share options to selected participants as incentives or rewards for their contribution to the Group.

During the year ended 31st December 2003, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 31st December 2003, none of the Directors or the employees of the Group had any rights to acquire shares.

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.

REPORT OF THE DIRECTORS

SPONSOR'S INTEREST

As at 31st December 2003, 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress to the business objectives set out in the Group's prospectus dated 15th July 2002:

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS/CHANGE IN BUSINESS OBJECTIVES

Strategic development and business improvements

Improve overall management information systems

Works for implementation of new management information systems were completed in November 2003. Senior management will closely monitor the effectiveness of these systems

Continue to organise individual training programmes for the Group's senior management staff

5 programmes for the Group's senior management were organised during the year

Implement training programmes to improve skills of research and development staff

14 programmes for R&D staff were organised during the year

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 were completed in November 2003 and were effectively operated for production of loudspeaker systems for customers

Perform feasibility studies on developing new models and technologically advanced loudspeaker systems used in automobiles, televisions and computer accessories

The Group's research and development department had successfully developed more than 80 types of loudspeaker systems for automobiles, home theatres, television and computer accessories during the year 2003

Perform feasibility studies on the development of commercial public announcement loudspeaker systems used in department stores, government buildings, airports and train stations and professional loudspeaker systems used in disco floor, music halls and theatres

Professional loudspeaker systems used in music halls and theatres had been successfully developed and delivered to overseas customers. Feasibility studies for development of commercial public announcement loudspeaker systems are progress as planned

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Purchase specialised vehicles with built-in audio sensors to test the performance of loudspeaker systems for automobiles in a real-car environment

Audio sensors and testing systems had been designed by Dr. Dave Clark and successfully installed in a newly acquired sedan car to test the performance of loudspeaker systems for automobiles

Sales and marketing strategy

Continue to explore overseas markets in the U.S. and Europe where large automobile manufacturers are located

The Group had successfully explored the U.S. market and loudspeaker systems for car models manufactured by Ford Motors in the U.S.

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

More advertisements were posted on automobiles related newspapers in Mainland China during the year 2003

Set up offices and technical liaison and service centres in developed cities of Mainland China and overseas markets

In progress as planned

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

More than 4 staff were hired to carry out sales and marketing plan of the Group during the year

Expansion and alliance

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

Certain production facilities and equipment had been acquired in the year. Other expansion are in progress as planned

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

In progress as planned

Commence the construction of new production facilities in Mainland China if feasibility studies suggested positive results

Site for new production facilities in Suzhou has been selected, the approval from the Suzhou Government for constructing factories in the selected site is yet to obtain

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Up to 31st December 2003, the Group has applied the net proceeds as follows:

	Remaining net proceeds as at 31st December 2002 HK\$ (in million)	Actual amount used up to 31st December 2003 HK\$ (in million)	Remaining net proceeds as at 31st December 2003 HK\$ (in million)
Strategic development and business improvement	2.6	0.2	2.4
Research and development	7.5	1.6	5.9
Sales and marketing strategy	6.4	0.5	5.9
Expansion and alliance	13.1	6.6	6.5
	29.6	8.9	20.7

The remaining net proceeds as at 31st December 2003 was approximately HK\$20.7 million, which have been placed as short-term interest bearing deposit with banks in Hong Kong.

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.

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, half-year report and quarterly reports and providing advices and comments to 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 members of the audit committee during the year and up to the date of this report are as follows:

Mr. Yiu Chi Wah*

Mr. Wong Kai Tung, Simon *

* Independent non-executive Directors

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board,

Yang Tsu Ying
Chairman

Hong Kong, 22nd March 2004

AUDITORS' REPORT



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 25 to 52 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003, 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, 22nd March 2004

SONAVOX INTERNATIONAL HOLDINGS LIMITED
上聲國際控股有限公司

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2003

	Note	2003 HK\$'000	(As restated) 2002 HK\$'000
Turnover	2	115,348	76,656
Cost of sales		(81,409)	(50,782)
Gross profit		33,939	25,874
Other revenue	2	231	244
Selling and distribution expenses		(4,922)	(4,123)
General and administrative expenses		(11,361)	(6,867)
Operating profit	3	17,887	15,128
Finance costs	4	(684)	(536)
Profit before taxation		17,203	14,592
Taxation	5	(1,688)	(1,402)
Profit after taxation		15,515	13,190
Minority interests		(9,152)	(7,326)
Profit attributable to shareholders	6	6,363	5,864
Dividends	7	2,912	2,600
Basic earnings per share	8	HK1.99 cents	HK2.12 cents
Diluted earnings per share	8	N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December 2003

	Note	2003 HK\$'000	(As restated) 2002 HK\$'000
Non-current assets			
Fixed assets	11	59,294	52,474
Deferred tax assets	22	3,685	2,431
Total non-current assets		62,979	54,905
Current assets			
Inventories	13	13,985	13,227
Trade receivables	14	37,206	19,876
Prepayments, deposits and other current assets		2,567	2,159
Due from a minority shareholder of a PRC subsidiary	15	–	943
Bank balances and cash	16	38,097	41,492
Total current assets		91,855	77,697
Current liabilities			
Trade payables	17	(21,541)	(13,139)
Accruals and other payables		(9,494)	(8,271)
Short-term bank loans	18	(12,825)	(6,224)
Due to minority shareholders of PRC subsidiaries	15	(1,174)	–
Taxation payable		(1,446)	(1,963)
Total current liabilities		(46,480)	(29,597)
Net current assets		45,375	48,100
Total assets less current liabilities		108,354	103,005
Financed by:			
Share capital	19	3,200	3,200
Reserves	21	63,972	60,202
Shareholders' funds		67,172	63,402
Minority interests		37,369	35,841
Non-current liabilities			
Deferred tax liabilities	22	3,813	3,762
Total equity and non-current liabilities		108,354	103,005

YANG TSU YING
Chairman

YANG CHING YAU
Director

BALANCE SHEET

As at 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investment in subsidiaries	12	38,846	19,700
Current assets			
Prepayments, deposits and other current assets		365	318
Bank balances and cash		22,637	29,879
		23,002	30,197
Current liabilities			
Accruals and other payables		(536)	(557)
Net current assets		22,466	29,640
Total assets less current liabilities		61,312	49,340
Financed by:			
Share capital	19	3,200	3,200
Reserves	21	58,112	46,140
		61,312	49,340

YANG TSU YING
Chairman

YANG CHING YAU
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2003

		2003 HK\$'000	(As restated) 2002 HK\$'000
At 1st January, as previously reported		64,080	17,442
Effect of changes in accounting policies	1(J)	(678)	725
At 1st January, as restated		63,402	18,167
Surplus on revaluation, net of tax	21	70	5,189
Exchange differences arising on translation of the accounts of foreign subsidiaries	21	(63)	188
Effect of the Reorganisation	21	–	2,541
Net gains not recognised in the profit and loss account		63,409	26,085
Profit for the year	21	6,363	5,864
Dividends	21	(2,600)	–
Issue of shares		–	40,000
Share issue expenses	21	–	(8,547)
At 31st December		67,172	63,402

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Net cash inflow generated from operations	23(a)	15,542	15,696
Interest paid		(684)	(536)
Mainland China enterprise income tax paid		(3,459)	(1,807)
Net cash inflow from operating activities		11,399	13,353
Investing activities			
Purchase of machinery and equipment		(13,202)	(4,243)
Interest received		44	90
Net cash outflow from investing activities		(13,158)	(4,153)
Net cash (outflow)/inflow before financing		(1,759)	9,200
Financing	23(b)		
Issue of ordinary shares		–	40,000
Share issue expenses		–	(8,547)
New bank loans		6,601	6,224
Repayment of short-term bank loans		–	(4,950)
Repayment of amount due to a shareholder		–	(4,399)
Repayment of amount due to a minority shareholder of a subsidiary		–	(2,545)
Increase in amount due from minority shareholders of subsidiaries		(216)	(943)
Dividends paid		(2,600)	–
Dividends paid to minority shareholders of subsidiaries		(5,358)	–
Net cash (outflow)/inflow from financing		(1,573)	24,840
(Decrease)/increase in cash and cash equivalents		(3,332)	34,040
Cash and cash equivalents at 1st January		41,492	7,264
Effect of foreign exchange rate changes		(63)	188
Cash and cash equivalents at 31st December		38,097	41,492

NOTES TO THE ACCOUNTS

1 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 standards issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the rules governing the listing of securities on the GEM of the Hong Kong Stock Exchange (“the GEM Listing Rules”). They have been prepared under the historical cost convention, as modified by the revaluation of leasehold land and buildings.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice (“SSAP”) 12 “Income taxes” issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting this new policy are set out below.

(B) GROUP ACCOUNTING

(i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st December 2003.

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; 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.

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.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill, or goodwill/negative goodwill taken to reserves and which was not previously charged to or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(B) GROUP ACCOUNTING (CONTINUED)

(i) Consolidation (continued)

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.

(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.

(C) FIXED ASSETS

(i) Leasehold land and buildings

Leasehold 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 2003. Increases in valuation are credited to the property revaluation reserve. Decrease in valuation are first offset against on earlier valuations in respect of the same land and buildings and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(C) FIXED ASSETS (CONTINUED)

(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:

Leasehold land	Over the term of the lease
Buildings	Over the term of the leasehold land, 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.

(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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(E) INVENTORIES

Inventories comprise stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour 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 comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(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 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(I) EMPLOYEE BENEFITS

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to non-accounting 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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(J) DEFERRED TAXATION

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As a result of the adoption of this accounting policy, the Group's profit attributable to shareholder for the year has been increased by approximately HK\$639,000 (2002: HK\$515,000), and the Group's net assets at the year end have been decreased by approximately HK\$65,000 (2002: HK\$678,000). The opening retained earnings and the comparative information adjusted for the amounts relating to prior years are disclosed in the consolidated statement of changes in equity.

(K) 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 the 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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(L) REVENUE RECOGNITION

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(M) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(N) SEGMENT REPORTING

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

Sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(O) 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.

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Manufacture and sales of loudspeaker systems	115,348	76,656
Other revenue		
Interest income	44	90
Others	187	154
	231	244
Total revenues	115,579	76,900

The Group is organised on a world wide basis with one business segment in the People's Republic of China ("Mainland China"), Japan, United States of America ("U.S.A."), Europe and others. Accordingly, the Directors consider there is one business segment and five geographical segments.

Approximately 58% of the Group's turnover for the year ended 31st December 2003 (2002: 66%) arose from the Group's top five customers.

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

An analysis of geographical segment is as follows:

	2003						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	U.S.A. HK\$'000	Europe HK\$'000	Eliminations HK\$'000	
Turnover:							
External sales	-	87,317	10,189	8,920	8,922	-	115,348
Inter-segment sales	4,641	20,925	-	-	-	(25,566)	-
Total turnover	4,641	108,242	10,189	8,920	8,922	(25,566)	115,348
Segment result	(3,069)	15,545	1,883	1,648	1,649	-	17,656
Unallocated income							231
Operating profit							17,887
Finance costs							(684)
Profit before taxation							17,203
Taxation							(1,688)
Profit after taxation							15,515
Minority interests							(9,152)
Profit attributable to shareholders							6,363
Segment assets	75,675	111,310	1,974	3,189	5,353	(46,352)	151,149
Unallocated assets							3,685
							154,834
Segment liabilities	(11,519)	(44,470)	-	-	-	10,955	(45,034)
Unallocated liabilities							(5,259)
							(50,293)
Capital expenditure	-	13,202	-	-	-	-	13,202
Depreciation	-	6,570	-	-	-	-	6,570

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2002 (As restated)						Group HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	U.S.A. HK\$'000	Europe HK\$'000	Eliminations 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
Operating profit							15,128
Finance costs							(536)
Profit before taxation							14,592
Taxation							(1,402)
Profit after taxation							13,190
Minority interests							(7,326)
Profit attributable to shareholders							5,864
Segment assets	49,897	98,065	698	798	413	(19,700)	130,171
Unallocated assets							2,431
							132,602
Segment liabilities	(557)	(27,077)	–	–	–	–	(27,634)
Unallocated liabilities							(5,725)
							(33,359)
Capital expenditure	–	4,243	–	–	–	–	4,243
Depreciation	–	6,486	–	–	–	–	6,486

NOTES TO THE ACCOUNTS

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Interest income	44	90
Charging		
Depreciation	6,570	6,486
Staff costs (including Directors' emoluments)	16,293	11,229
Operating lease rentals in respect of premises	83	83
Research, development and testing costs	3,860	599
Auditors' remuneration	400	400
Provision for bad and doubtful debts	346	481

4 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within five years	684	536

5 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	(As restated) 2002 HK\$'000
Current taxation		
– Mainland China enterprise income tax	2,942	2,412
Deferred taxation	(1,254)	(1,010)
Taxation charges	1,688	1,402

The company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The company's subsidiary established in the British Virgin Islands is incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of the British Virgin Islands income taxes.

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-making year to be followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in 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) for the subsidiaries operating in Hong Kong during the year.

NOTES TO THE ACCOUNTS

5 TAXATION (CONTINUED)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Mainland China as follows:

	2003 HK\$'000	(As restated) 2002 HK\$'000
Profit before taxation	17,203	14,592
Calculated at a taxation rate of 27% (2002: 27%)	4,645	3,940
Effect of different taxation rates during tax holiday	(3,663)	(2,810)
Income not subject to taxation	(141)	(154)
Expenses not deductible for taxation purposes	880	476
Previously unrecognised tax losses	(33)	(50)
Taxation charge	1,688	1,402

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of approximately HK\$14,572,000 (2002: loss of HK\$1,763,000).

7 DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Final, proposed, of HK0.91 cent (2002: HK0.8125 cent) per ordinary share	2,912	2,600

At a meeting held on 22nd March 2004, the directors proposed a final dividend of HK0.91 cent per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's consolidated profit attributable to shareholders of approximately HK\$6,363,000 (2002: HK\$5,864,000) and on the weighted average number of approximately 320,000,000 (2002: 275,945,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the year ended 31st December 2003 (2002: Nil).

NOTES TO THE ACCOUNTS

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	12,916	10,300
Pension costs – defined contribution plans	3,377	929
	16,293	11,229

10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to directors of the company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	390	173
Basic salaries and allowances	540	243
	930	416

Directors' fees disclosed above represents fees paid to independent non-executive directors.

No director 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.

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

	2003	2002
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\$270,000 (2002: HK\$121,500) and each non-executive director received a fee of approximately HK\$195,000 (2002: HK\$86,500).

- (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: five) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries and allowances	1,425	947
Pensions	30	57
	1,455	1,004

During the year, no emoluments were paid to the five highest paid individuals 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 fell within the range of Nil to HK\$1,000,000.

NOTES TO THE ACCOUNTS

11 FIXED ASSETS

	2003						2002	
	Leasehold land and buildings	Leasehold improvements	Machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
Beginning of year	37,720	2,580	20,655	6,609	3,090	-	70,654	55,976
Additions	-	222	10,062	-	-	2,918	13,202	4,243
Revaluation	(943)	-	-	-	-	-	(943)	10,435
End of year	36,777	2,802	30,717	6,609	3,090	2,918	82,913	70,654
Accumulated depreciation								
Beginning of year	-	1,234	12,104	3,331	1,511	-	18,180	15,194
Charge for the year	1,131	516	3,455	920	548	-	6,570	6,486
Write back on revaluation	(1,131)	-	-	-	-	-	(1,131)	(3,500)
End of year	-	1,750	15,559	4,251	2,059	-	23,619	18,180
Net book value								
End of year	36,777	1,052	15,158	2,358	1,031	2,918	59,294	52,474
Beginning of year	37,720	1,346	8,551	3,278	1,579	-	52,474	40,782

The analysis of the cost or valuation at 31st December 2003 of the above asset is as follows:

At cost	-	2,802	30,717	6,609	3,090	2,918	46,136	32,934
At revaluation	36,777	-	-	-	-	-	36,777	37,720
	36,777	2,802	30,717	6,609	3,090	2,918	82,913	70,654

The leasehold 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 2003 as determined by Grant Sherman Appraisal Limited, an independent qualified valuer, on a depreciated replacement cost basis.

As at 31st December 2003, all (2002: all) of the Group's leasehold land and buildings were pledged as security for short-term bank loans.

The net book value of all the leasehold land and buildings would have been HK\$22,966,000 (2002: HK\$23,785,000) had they been stated at cost less accumulated depreciation.

NOTES TO THE ACCOUNTS

12 INVESTMENT IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	14,650	14,650
Amounts due from subsidiaries	24,196	5,050
	38,846	19,700

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the subsidiaries as at 31st December 2003:

Name	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued share capital	Interest held
Taraki Inc. (a)	British Virgin Islands, limited liability company	Investment holding	US\$2	100%
Suzhou Shangsheng Electrics Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems for automobiles	US\$2,380,000	51%
Suzhou Shangsheng Electronics Enterprises Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker components	US\$2,620,000	51%
Suzhou Sonavox Acoustics Co., Ltd. (b)	Mainland China, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems for home theatres	US\$2,500,000	51%
Taraki Services Company Limited	Hong Kong, limited liability company	Provision of management services to group companies	HK\$2	100%
Sonavox Electronics Company Limited (formerly known as Sonavox Trading Company Limited)	Samoa, limited liability company	Inactive	US\$1	100%

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.

NOTES TO THE ACCOUNTS

13 INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	7,417	4,385
Work-in-progress	1,605	1,320
Finished goods	4,963	7,522
	13,985	13,227

At 31st December 2003, there were no inventories stated at net realisable value (2002: Nil).

14 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 2003, ageing analysis of the Group's trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	18,637	11,151
31 – 60 days	9,106	5,427
61 – 90 days	5,652	1,593
91 – 180 days	3,844	1,675
181 – 360 days	319	340
Over 360 days	1,004	700
	38,562	20,886
Less: Provision for bad and doubtful debts	(1,356)	(1,010)
	37,206	19,876

15 DUE FROM/(TO) MINORITY SHAREHOLDERS OF PRC SUBSIDIARIES

Amounts due from/(to) minority shareholders of PRC subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16 BANK BALANCES AND CASH

The Group's cash and bank deposits of approximately HK\$15,361,000 (2002: HK\$11,514,000) 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.

NOTES TO THE ACCOUNTS

17 TRADE PAYABLES

At 31st December 2003, the ageing analysis of the Group's trade payables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	8,305	5,570
31 – 60 days	6,951	3,011
61 – 90 days	3,553	2,670
91 – 180 days	2,495	1,380
181 – 360 days	151	372
Over 360 days	86	136
	21,541	13,139

18 SHORT-TERM BANK LOANS

Short-term bank loans bore interest at rates ranging from 4.6% to 5.8% per annum and are repayable within one year. Refer to Note 24 for details of the Group's banking facilities.

19 SHARE CAPITAL

	Authorised	
	2003 HK\$'000	2002 HK\$'000
20,000,000,000 (2002: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000

	Issued and fully paid	
	2003 HK\$'000	2002 HK\$'000
320,000,000 (2002: 320,000,000) ordinary shares of HK\$0.01 each	3,200	3,200

20 SHARE OPTIONS

The company has a 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 2003, no option had been granted under the share option scheme.

NOTES TO THE ACCOUNTS

21 RESERVES

Movements of the Group's reserves were as follows:

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves (a) HK\$'000	Merger reserve (b) HK\$'000	Group Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1st January 2003, as restated	25,753	5,189	3,227	2,441	188	20,804	2,600	60,202
Surplus on revaluation of leasehold land and buildings	-	96	-	-	-	-	-	96
Recognition of deferred tax liabilities	-	(26)	-	-	-	-	-	(26)
Exchange differences	-	-	-	-	(63)	-	-	(63)
Profit for the year	-	-	-	-	-	6,363	-	6,363
Appropriations	-	-	1,630	-	-	(1,630)	-	-
Dividends paid	-	-	-	-	-	-	(2,600)	(2,600)
Dividends proposed	-	-	-	-	-	(2,912)	2,912	-
At 31st December 2003	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972
At 1st January 2002, as previously reported	-	-	3,227	(2,400)	-	14,215	-	15,042
Changes in accounting policy-recognition of deferred tax assets	-	-	-	-	-	725	-	725
At 1st January 2002, as restated	-	-	3,227	(2,400)	-	14,940	-	15,767
Surplus on revaluation of leasehold land and buildings	-	7,107	-	-	-	-	-	7,107
Recognition of deferred tax liabilities	-	(1,918)	-	-	-	-	-	(1,918)
Exchange differences	-	-	-	-	188	-	-	188
Profit for the year	-	-	-	-	-	5,864	-	5,864
Dividends	(2,600)	-	-	-	-	-	2,600	-
Issue of shares	39,200	-	-	-	-	-	-	39,200
Share issue expenses	(8,547)	-	-	-	-	-	-	(8,547)
Capitalisation of share premium	(2,300)	-	-	2,300	-	-	-	-
Effect of the Reorganisation	-	-	-	2,541	-	-	-	2,541
At 31st December 2002, as restated	25,753	5,189	3,227	2,441	188	20,804	2,600	60,202

NOTES TO THE ACCOUNTS

21 RESERVES (CONTINUED)

Movements of the company's reserves were as follows:

	Share premium HK\$'000	Company		Proposed dividends HK\$'000	Total HK\$'000
		Merger reserve (b) HK\$'000	Accumulated deficits HK\$'000		
At 1st January 2002	–	–	–	–	–
Loss for the year	–	–	(1,763)	–	(1,763)
Proposed dividends	(2,600)	–	–	2,600	–
Issue of shares	39,200	–	–	–	39,200
Share issue expenses	(8,547)	–	–	–	(8,547)
Capitalisation of share premium	(2,300)	–	–	–	(2,300)
Effect of the Reorganisation	–	19,550	–	–	19,550
At 31st December 2002	25,753	19,550	(1,763)	2,600	46,140
At 1st January 2003	25,753	19,550	(1,763)	2,600	46,140
Profit for the year	–	–	14,572	–	14,572
Dividends paid	–	–	–	(2,600)	(2,600)
Dividends proposed	–	–	(2,912)	2,912	–
At 31st December 2003	25,753	19,550	9,897	2,912	58,112

(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.

(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.

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.

NOTES TO THE ACCOUNTS

22 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2002: 27%).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the period is as follows:

	Accelerated tax depreciation		Provision for bad debts		Tax loss		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deferred tax assets								
At 1st January	1,480	1,224	273	143	678	54	2,431	1,421
Credited to profit and loss account	458	256	93	130	703	624	1,254	1,010
At 31st December	1,938	1,480	366	273	1,381	678	3,685	2,431

	Revaluation of land and buildings	
	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities		
At 1st January	(3,762)	–
Charged to equity	(51)	(3,762)
At 31st December	(3,813)	(3,762)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	2003 HK\$'000	2002 HK\$'000
Deferred tax assets to be recovered after more than 12 months	3,685	2,431
Deferred tax liabilities to be settled after more than 12 months	(3,813)	(3,762)

NOTES TO THE ACCOUNTS

23 CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	17,203	14,592
Interest income	(44)	(90)
Interest expense	684	536
Depreciation	6,570	6,486
Operating profit before working capital changes	24,413	21,524
Increase in inventories	(758)	(4,396)
Increase in trade receivables	(17,330)	(2,191)
Increase in prepayments, deposits and other current assets	(408)	(49)
Increase in trade payables	8,402	6,241
Increase/(decrease) in accruals and other payables	1,223	(5,433)
Net cash inflow generated from operations	15,542	15,696

NOTES TO THE ACCOUNTS

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) minority shareholders of PRC subsidiaries	Minority interests (as restated)	Total (as restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January 2002, as previously reported	–	4,950	6,940	2,545	22,835	37,270
Changes in accounting policies – recognition of deferred taxation	–	–	–	–	696	696
As at 1st January 2002, as restated	–	4,950	6,940	2,545	23,531	37,966
Issue of shares	40,100	–	–	–	–	40,100
Share issue expenses	(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	–	–	–	–	7,326	7,326
Share of minority interests on reserves	–	–	–	–	4,984	4,984
Increase in due from a minority shareholder	–	–	–	(943)	–	(943)
At 31st December 2002, as restated	31,553	6,224	–	(943)	35,841	72,675
New bank loans	–	6,601	–	–	–	6,601
Repayment	–	–	–	–	–	–
Share of profit for the year	–	–	–	–	9,152	9,152
Share of minority interests on reserves	–	–	–	–	67	67
Increase in due to/(from) minority shareholders	–	–	–	2,117	(2,333)	(216)
Dividends	(2,600)	–	–	–	(5,358)	(7,958)
At 31st December 2003	28,953	12,825	–	1,174	37,369	80,321

NOTES TO THE ACCOUNTS

23 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

- (c) Major non-cash transactions:

During the year, approximately HK\$5,358,000 (2002: Nil) of the dividend paid to the minority shareholders of certain of the Group's PRC subsidiaries was settled in cash; while approximately HK\$2,333,000 (2002: Nil) was settled through current account with the minority shareholders.

24 BANK FACILITIES

As at 31st December 2003, the Group had aggregate banking facilities of approximately HK\$14,145,000 (2002: HK\$14,145,000). Unused facilities as at 31st December 2003 amounted to approximately HK\$1,320,000 (2002: HK\$7,927,000). These facilities were secured by:

- (a) pledged over all of the Group's leasehold land and buildings with a carrying value of approximately HK\$36,777,000 (2002: HK\$37,720,000); and
- (b) corporate guarantee provided by a subsidiary of the company.

25 COMMITMENTS

(A) CAPITAL COMMITMENTS FOR FIXED ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	2,050	–

(B) COMMITMENTS UNDER OPERATING LEASES

At 31st December 2003, the Group had aggregate minimum lease payments under non-cancellable operating lease as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	16	83
Later than one year and not later than five years	–	16
	16	99

NOTES TO THE ACCOUNTS

26 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 HK\$12,000 (2002: HK\$12,000).

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan 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 2003, the aggregate amount of the Group’s employer contributions was approximately HK\$2,798,000 (2002: HK\$917,000).

27 RELATED PARTY TRANSACTIONS

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

	2003 HK\$’000	2002 HK\$’000
Purchase from Sonavox Electronics Inc. ¹	–	647
Sale to Asian Elite International Limited ¹	–	140
Sale to Sonavox Electronics (Suzhou Industrial Park) Limited ¹	56	–
Trade receivables from Asian Elite International Limited ¹	–	60
Trade and other receivables from Sonavox Electronics (Suzhou Industrial Park) Limited ¹	469	–
Trade payables to Sonavox Electronics Inc. ¹	–	647

¹ These are companies in which Mr. Yang Tsu Ying and Mr. Yang Ching Yau, directors of the company, have beneficial interests.

² In the opinion of the directors, the above transactions with related companies are carried out in the ordinary course of business on terms as agreed with the related parties.

28 ULTIMATE HOLDING COMPANY

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

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March 2004.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Sonavox International Holdings Limited (“Company”) will be held at Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 28th April 2004 at 9:30 a.m. to consider and, if thought fit, transact the following ordinary businesses:

1. to receive and approve the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors (“Directors”) of the Company and the Company’s auditors for the year ended 31st December 2003;
2. to approve and declare a final dividend for the year ended 31st December 2003;
3. to consider the re-election of the retiring Directors and to authorise the board (“Board”) of Directors to fix the Directors’ remuneration;
4. to consider the re-appointment of PricewaterhouseCoopers as the Company’s auditors and to authorise the Board to fix their remuneration;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary and/or special resolutions (with or without modifications):

SPECIAL RESOLUTION

5. **“THAT** the Articles of Association of the Company be and they are altered in the following manner:
 - (a) Article 1(A) be amended by:
 - a. deletion of the definition of “associates” and insertion of the following in its place:

““associates”, in relation to any Director, shall have the meaning as ascribed to it in the Listing Rules;”
 - b. insertion of the following definitions immediately before the definition of “month”:

““Hong Kong” shall mean the Hong Kong Special Administrative Region of the People’s Republic of China;

“Listing Rules” shall mean the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;”
 - (b) Article 84 be deleted in its entirety and replaced with the following:

“84. (A) Subject to paragraph (B) of this Article 84, no objection shall be raised to the qualification of any person exercising or purporting to exercise a vote or the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman, whose decision shall be final and conclusive.

NOTICE OF ANNUAL GENERAL MEETING

- (B) At all times during the Relevant Period (but not otherwise), where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted.”
- (c) Article 107 be amended by:
- a. insertion of the words “or the appointment of any of his associates” immediately after the word “appointment” on the third line in paragraph (D);
 - b. insertion of the words “or any of the associate(s) of any such Director(s)” immediately after the word “Directors” on the fourth line in paragraph (E);
 - c. insertion of the words “or, as the case may be, the associate(s) of such Director” immediately after the words “in relation to each Director” on the seventh line in paragraph (E);
 - d. insertion of the words “or the appointment of any of his associates” immediately after the words “except that concerning his own appointment” on the tenth line in paragraph (E);
 - e. deletion of the words “together with any of” and insertion of the word “and” in their place on the fourteenth line in paragraph (E);
 - f. insertion of the words “in aggregate” immediately after the words “his associates” on the fourteenth line in paragraph (E);
 - g. deletion of paragraph (G) in its entirety and insertion of the following in its place:

“(G) If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he shall declare the nature of his or, as the case may be, his associate(s)’ interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associate(s) then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested. For the purposes of this Article, a general notice to the Directors by a Director to the effect that (a) he or his associate(s) is a shareholder of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (b) he or his associate(s) is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or any of his associate(s), shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.”;

NOTICE OF ANNUAL GENERAL MEETING

- h. deletion of paragraph (H) in its entirety and insertion of the following in its place:

“(H) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or proposal in which he or any of his associate(s) is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor is he counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associate(s) in respect of money lent or obligation undertaken by him or any of them at the request of or for the benefit of the Company or any company in which the Company has interest;
- (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any company in which the Company has interest for which the Director or his associate(s) has himself/themselves guaranteed or secured or otherwise assumed responsibility in whole or in part and whether alone or jointly under a guarantee or by the giving of security;
- (iii) any contract or arrangement by the Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the shareholders or debenture or securities holders of the Company or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other shareholders or debenture or securities holders of the Company or to the public;
- (iv) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their respective interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

NOTICE OF ANNUAL GENERAL MEETING

- (vi) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly or as an officer or an executive or a shareholder in which the Director or his associate(s) is/are beneficially interested in shares of that company provided that, such Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company (other than shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights);
 - (vii) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant taxing authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or of any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the class of persons to whom such scheme or fund relates;
 - (viii) any proposal concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
 - (ix) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to these Articles.
- i. deletion of paragraph (l) in its entirety and insertion of the following in its place:
- "(l) A company shall be deemed to be a company in which a Director and his associates in aggregate own five per cent. or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company if and so long as (but only if and so long as) he and his associates are (either directly or indirectly) the holder of or beneficially interested in five per cent. or more of any class of the issued voting equity share capital of such company (or of any third company, other than the Company or any of its subsidiaries, through which his interest is derived) or of the voting rights of any class of shares of the company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or any of his associate(s) as bare or custodian trustee and in which he or such associate(s) has/have no beneficial interest, any shares comprised in a trust in which the interest of the Director or any of his associates is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, any shares comprised in an authorised unit trust scheme in which the Director or any of his associates is interested only as a unit holder, and shares which carry no voting right at general meetings and no or nugatory dividend and return of capital rights."

NOTICE OF ANNUAL GENERAL MEETING

- j. deletion of the words “together with any of” and insertion of the word “and” in their place on the fifth and sixth lines in paragraph (J);
 - k. insertion of the words “in aggregate” immediately after the words “his associates” on the sixth line in paragraph (J);
 - l. insertion of the words “or any of his associates” immediately after the words “interest of a Director” on the second line in paragraph (K);
 - m. insertion of the words “or his associates” immediately after the word “concerned” on the tenth line in paragraph (K) and the word “Chairman” on the fourteenth line in paragraph (K); and
 - n. insertion of the words “or any of his associates” immediately after the words “notwithstanding that he” on the sixth line in paragraph (L);
- (d) Article 113 be amended by:
- a. deletion of the words “but no more than seven clear days” and insertion of the following in their place on the seventh line:

“for at least seven days commencing no earlier than the day immediately after the despatch of the notice of the general meeting and ending no later than seven days”; and
 - b. deletion of the word “the” immediately after the word “before” and insertion of the word “such” in its place on the seventh line.
- (e) Article 175 be amended by deletion of the word “Accounting” and insertion of the words “Financial Reporting” in its place on the ninth line in paragraph (A); and
- (f) Article 180 be amended by insertion of the words “, interim report (and where applicable, a summary interim report)” immediately after the words “auditors’ reports” on the fourth line in sub-paragraph (B)(iii).”

ORDINARY RESOLUTIONS

6. “THAT:

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on Growth Enterprise Market The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with the unissued shares (each, a “Share”) of HK\$0.01 each 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 the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period (as defined in paragraph (d) below) to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

- (c) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any options granted under all share option schemes of the Company adopted from time to time in accordance with the GEM Listing Rules; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares shall not exceed the aggregate of:
- (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and
 - (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of any share capital of the Company purchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of 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 the Articles of Association of the Company or the applicable law of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution;

“Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion 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, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

NOTICE OF ANNUAL GENERAL MEETING

7. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase shares (each, a **“Share”**) of HK\$0.01 each in the capital of the Company on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited (the **“Stock Exchange”**), or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased or agreed to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period (as defined in paragraph (c) below) shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purposes of this resolution, **“Relevant Period”** means the period from the date of 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 the articles of association of the Company or the applicable law of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

8. **“THAT** conditional on the passing of resolutions numbered 6 and 7 above, the general mandate granted to the directors of the Company pursuant to paragraph (a) of resolution numbered 6 above be and it is hereby extended by the addition to the aggregate nominal amount of the shares which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased by the Company pursuant to or in accordance with the authority granted under paragraph (a) of resolution numbered 7 above.”

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

Hong Kong, 22nd March 2004

NOTICE OF ANNUAL GENERAL MEETING

*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:

- (a) Any member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf in accordance with the Articles of Association of the Company. A proxy needs not to be a member of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority 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 for holding the above meeting or at any adjournment thereof.
- (c) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (d) An Explanatory Statement containing further details regarding ordinary resolution no. 7 as required by the GEM Listing Rules of the Stock Exchange will be despatched to the members of the Company together with the annual report for the financial year ended 31st December 2003.

