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



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上 聲 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8226)

First Quarterly Report For the three-month ended 31st March 2004

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

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

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

FINANCIAL RESULTS (UNAUDITED)

The board of Directors (the "Board") of Sonavox International Holdings Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (together the "Group" or "Sonavox") for the three months ended 31st March 2004. The unaudited results of the Group for the three months ended 31st March 2004 and comparative figures for the corresponding period in the financial year 2003 were as follows:

		For the three months ended 31st March	
	Note	2004 HK\$'000	2003 HK\$'000 (As restated)
Turnover	2	33,311	21,381
Cost of sales		(23,975)	(14,369)
Gross profit		9,336	7,012
Other revenue		209	95
Selling and distribution expenses		(2,206)	(1,186)
General and administrative expenses		(2,621)	(2,268)
Profit from operations		4,718	3,653
Finance costs		(165)	(109)
Profit before taxation	3	4,553	3,544
Taxation	4	(1,137)	(538)
Profit before minority interests		3,416	3,006
Minority interests		(1,970)	(1,629)
Profit attributable to shareholders		1,446	1,377
Earnings per share – Basic (cents)	6	0.45	0.43

Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are consistent with those followed in the Group's audited financial statements for the year ended 31st December 2003.

2. TURNOVER

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

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

	For the three months ended 31st March 2004	
	HK\$'000	2003 HK\$'000 (As restated)
Turnover		
Manufacture and sale of loudspeaker systems	33,311	21,381
Other revenue		
Interest income	9	10
Others	200	85
Total revenue	<u>33,520</u>	<u>21,476</u>

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

	For the three months ended 31st March 2004						
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	U.S.A HK\$'000	Europe HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover*							
External sales	-	24,457	4,647	2,635	1,572	-	33,311
Intersegment sales	-	7,028	-	-	-	(7,028)	-
Total turnover	<u>-</u>	<u>31,485</u>	<u>4,647</u>	<u>2,635</u>	<u>1,572</u>	<u>(7,028)</u>	<u>33,311</u>
Segment result	<u>(636)</u>	<u>3,777</u>	<u>718</u>	<u>407</u>	<u>243</u>	<u>-</u>	<u>4,509</u>
Unallocated income							209
Operating profit							4,718
Finance costs							(165)
Profit before taxation							4,553
Taxation							(1,137)
Profit after taxation							3,416
Minority interests							(1,970)
Profit attributable to shareholders							<u>1,446</u>
Depreciation	<u>-</u>	<u>2,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,023</u>

2. TURNOVER (Continued)

	For the three months ended 31st March 2003 (As restated)						
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	U.S.A. HK\$'000	Europe HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover*							
External sales	-	16,924	2,262	1,027	1,168	-	21,381
Inter-segment sales	-	3,658	-	-	-	(3,658)	-
Total turnover	<u>-</u>	<u>20,582</u>	<u>2,262</u>	<u>1,027</u>	<u>1,168</u>	<u>(3,658)</u>	<u>21,381</u>
Segment result	<u>(677)</u>	<u>3,352</u>	<u>448</u>	<u>203</u>	<u>232</u>	<u>-</u>	<u>3,558</u>
Unallocated income							95
Operating profit							3,653
Finance costs							(109)
Profit before taxation							3,544
Taxation							(538)
Profit after taxation							3,006
Minority interests							(1,629)
Profit attributable to shareholders							<u>1,377</u>
Depreciation	<u>-</u>	<u>1,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,987</u>

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

3. PROFIT BEFORE TAXATION

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, leasehold land and buildings for the three-month periods ended 31st March 2003 and 2004.

4. TAXATION

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

	For the three months ended 31st March 2004 HK\$'000		2003 HK\$'000 (As restated)
Current taxation			
- Mainland China enterprise income tax		1,401	742
Deferred taxation		(264)	(204)
Taxation charges		<u>1,137</u>	<u>538</u>

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

4. TAXATION (Continued)

Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics"), Suzhou Shangsheng Electronics Enterprises Co., Ltd. ("Shangsheng Enterprises") and Suzhou Sonavox Acoustics Co., Ltd. ("Sonavox Acoustics") being foreign investment enterprises established in the Coastal Open Economic Region of Suzhou, Mainland China, are subject to preferential enterprise income tax rate of 24% and are entitled to full exemption from Mainland China enterprise income tax for two years starting from its first profit-marking year followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

Shangsheng Electrics was exempted from Mainland China enterprise income tax up to 31st December 1997 and it is subject to Mainland China enterprise income tax at a rate of 12% from 1st January 1998 to 31st December 2000. Pursuant to an approval from the local tax authority of Mainland China, Shangsheng Electrics continued to be entitled to 50% reduction in tax rate from 1st January 2001 to 31st December 2003, being qualified as a "New and High Technology Enterprise". Shangsheng Enterprises was exempted from Mainland China enterprise income tax up to 31st December 2000 and is subject to Mainland China enterprise income tax at a rate of 12% from 1st January 2001 to 31st December 2003. Thereafter, Shangsheng Electrics and Shangsheng Enterprises are subject to Mainland China income tax at a rate of 27% (24% state income tax and 3% local income tax). 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 (2003: Nil) made in Hong Kong during the period.

5. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31st March 2004 (2003: Nil).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31st March 2004 were based on the unaudited profit attributable to shareholders of approximately HK\$1,446,000 (2003: HK\$1,377,000) and on the weighted average number of approximately 320,000,000 ordinary shares in issue during each of the three months ended 31st March 2003 and 2004.

7. RESERVES

Movements of the Group's reserves for the three-month periods ended 31st March 2003 and 2004 were as follows:

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves HK\$'000	Merger reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1st January 2003, as restated (audited)	25,753	5,189	3,227	2,441	188	20,804	2,600	60,202
Profit for the three-month period	-	-	-	-	-	1,377	-	1,377
At 31st March 2003 (unaudited)	<u>25,753</u>	<u>5,189</u>	<u>3,227</u>	<u>2,441</u>	<u>188</u>	<u>22,181</u>	<u>2,600</u>	<u>61,579</u>
	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves HK\$'000	Merger reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1st January 2004 (audited)	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972
Profit for the three-month period	-	-	-	-	-	1,446	-	1,446
At 31st March 2004 (unaudited)	<u>25,753</u>	<u>5,259</u>	<u>4,857</u>	<u>2,441</u>	<u>125</u>	<u>24,071</u>	<u>2,912</u>	<u>65,418</u>

BUSINESS REVIEW AND PROSPECTS

Business Review

According to the recent auto news in Mainland China, sale of cars built in Mainland China stood at approximately 358,000 units from January to February 2004, representing an increase of 37% compared with the same period of last year. These figures fully demonstrate that the purchasing power for automobiles in Mainland China was still sustained and outperformed most markets worldwide and that the continuously rising living standards of people in Mainland China nourish a very fast growing automobile industry. In view of this booming market, the Group's major customers accelerated their development by increasing their production capacity, to meet the continuous growth in automobile demand. This prosperous environment has also attracted the Group's major customers to introduce new vehicle models into Mainland China market. Stimulated by these factors, the Group's loudspeaker systems for automobiles business achieved record-breaking performance to reach approximately HK\$28,606,000 in turnover, representing a growth of approximately 69%.

During the review period, the Group has successfully delivered loudspeaker systems for automobiles manufactured by Ford Motor Company in the U.S. and the Passat car model manufactured by Shanghai Volkswagen Automotive Co., Ltd. in Mainland China.

As there is a remarkable growth in the sale of DVD players and recorders in Mainland China and overseas, coupled with the Group had successfully developed new loudspeaker systems for professional audio equipment used in concerts and music halls, the turnover of approximately HK\$3,388,000 was achieved from the sale of loudspeaker systems for audio equipment during the first quarter of 2004.

In order to further achieve the Group's vertical integration plan and capabilities expansion plan for its loudspeaker systems business, Suzhou Shangsheng Technology Co., Ltd. ("Shangsheng Technology") was established on 23rd March 2004. Shangsheng Technology is a sino-foreign equity joint venture established in Suzhou, Mainland China, with registered capital of approximately HK\$101,400,000 (equivalent to US\$13,000,000) for a period of 50 years expiring on 22nd March 2054, and owned as to 51% by Taraki Inc., a subsidiary of the Company, and 49% by Suzhou City Xiangcheng Yuanhe Town Collective Assets Operation Company (蘇州市相城區元和鎮集體資產經營公司). As at 31st March 2004, no registered capital of Shangsheng Technology has yet been paid up.

Financial Review

Being able to capitalise on the rising demand for automobiles, DVD players and other audio equipment in Mainland China and to manufacture quality loudspeaker systems, the Group achieved satisfactory financial results for the first quarter of 2004. During the three months ended 31st March 2004, the Group achieved a turnover of approximately HK\$33,311,000 (2003: HK\$21,381,000), representing an 56% leap as compared with the corresponding period in 2003. The gross profit margin decreased from approximately 33% to approximately 28% due to the recruitment of additional workers for future capabilities expansion in the coming months and the increase in cost of materials during the three months ended 31st March 2004. Despite the decrease in gross profit margin during the three-month period and the expiry of tax reduction entitlement as at 31st December 2003, profit attributable to shareholders still surged 5% to approximately HK\$1,446,000. Earnings per share were HK0.45 cents (2003: HK0.43 cents).

In terms of geographical distribution, Mainland China is currently the Group's biggest market, accounting for 73% of total turnover. According to the Group's strategic planning, overseas markets have been continuously explored. Revenue from overseas markets during the review period surged 99% as compared with the corresponding period in 2003, reached approximately HK\$8,854,000 (2003: HK\$4,457,000). This trend demonstrated the effectiveness of the Group's marketing strategy to introduce

its loudspeaker systems to overseas markets and the commitment of the Group's management to sell quality loudspeaker systems to its renowned customers in Mainland China and overseas markets.

The Group's total expenses in the three months ended 31st March 2004 increased by 62% from approximately HK\$17,932,000 to approximately HK\$28,967,000. The increase was mainly attributable to the higher level of business operations and the continuous expansion in the Group's capabilities during the three months ended 31st March 2004 compared to that of the corresponding period in 2003.

Liquidity, Financial Resources and Treasury Policies

During the three months ended 31st March 2004, the Group's major business operations took place in Mainland China, financed mainly by the cash revenue generated from operating activities and partly from short-term bank loans. As at 31st March 2004, the Group had cash and bank deposits of approximately HK\$34,136,000.

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 approximately HK\$1,045,000 was incurred during the period. As a result, the Group's current ratio reduced from 1.98 as at 31st December 2003 to 1.67 as at 31st March 2004. The Group took advantage of low interest short-term bank loans in Mainland China. During the period, the Group utilised its banking facilities granted by a PRC bank to approximately HK\$22,821,000, and as a result, gearing ratio increased from 0.43 as at 31st December 2003 to 0.65 as at 31st March 2004. The gearing ratio was calculated on the basis of total current liabilities over shareholders' funds plus minority interests as at the balance sheet dates. As at 31st March 2004, the Group had total liabilities amounting to approximately HK\$73,681,000 including short-term bank loans of approximately HK\$22,821,000 (equivalent to RMB24,200,000), bearing interest at rates ranging from 4.6% to 5.8% per annum with repayment within a year.

The Group adopts conservative treasury policies in managing its cash and financial matters 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 Euros. The Group's liquidity and financial arrangements are reviewed regularly by the Directors and the senior management.

Capital Commitment

As at 31st March 2004, the Group had capital commitment in respect of the unpaid registered capital of Shangsheng Technology. Details are as follows:

	2004 HK\$'000	2003 HK\$'000 (As restated)
Contracted but not provided for	51,714	—

Material Acquisition/Disposals or Significant Investment

The Group had no material acquisitions, disposals or investments. At present, the Group has no future plan for material acquisitions or disposal of significant investments other than those set out in the section headed "Future plans and business objectives" in the prospectus.

Exposure to Exchange Rate Fluctuations

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

Banking Facilities and Pledge of Assets

As at 31st March 2004, the Group had aggregate banking facilities of approximately HK\$28,290,000 (equivalent to RMB30,000,000) for overdrafts and loan financing. The banking facilities were granted by a Mainland China bank. Unused facilities as at the same date amounted to approximately HK\$5,469,000 (equivalent to RMB5,800,000). These facilities were secured by the leasehold land and buildings owned by certain Mainland China subsidiaries of the Group together with a corporate guarantee given by a Mainland China subsidiary. Had all the leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's leasehold land and buildings as at 31st March 2004 would have been approximately HK\$22,761,000 (As at 31st December 2003: HK\$22,966,000).

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st March 2004 and 31st December 2003 were set out below:

	As at 31st March 2004	As at 31st December 2003	As at 31st March 2003
Management and administration	49	41	54
Sales and marketing	20	20	15
Manufacturing and operations	1,056	809	574
Research and development	32	32	31
Quality assurance and quality control	67	67	83
Finance and accounting	11	11	11
Total	<u>1,235</u>	<u>980</u>	<u>768</u>

Remuneration of Employees and Policies

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

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

Total remuneration incurred for the three months ended 31st March 2004 increased to approximately HK\$5,937,000 (2003: HK\$2,933,000) due to the fact that the Group had a larger number of workers than the same period of last year for the expansion of loudspeaker systems production during the three months ended 31st March 2004. The Directors had received remuneration of approximately HK\$250,000 (2003: HK\$230,000) during the three months ended 31st March 2004.

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 the new requirements of international standards. The Group also provides different training programmes to its senior management in order to update their management skills and techniques.

Prospects

The escalating trend in Mainland China's automobile industry will continue, with vehicle output estimated to reach more than 5 million units during 2004, an approximate growth of more than 20% compared with 2003.

To further diversify market coverage, the Group will not only maintain its market share in Mainland China market, but also will further accelerate its development in overseas markets. The Group plans to expand its sales network by setting up overseas sales offices where the global automobile manufacturers are located.

The management strongly believes that the Group will benefit from its strong research and development ("R&D") teams and capabilities together with its long-term relationships with its renowned customers in the automobile industry. A strong foothold in Mainland China and overseas markets is expected to be further established in the year 2004.

To capture opportunities arising in the professional audio and home theatre markets in Mainland China and overseas, the Group will stay competitive by expanding its R&D activities and allocating additional resources to develop new models while improving the quality, performance and functionality of the Group's major products.

OTHER INFORMATION

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 period.

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.

Connected transactions

During the period, 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").

Directors' and Chief Executives' Interests or Short Positions in the Shares or Debentures

As at 31st March 2004, 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 <i>(Note)</i>	Corporate	Interest of a controlled corporation	240,000,000	75%
Mr. Yang Ching Yau <i>(Note)</i>	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 March 2004, 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.

Substantial Shareholders

So far as was known to any Director of the Company, as at 31st March 2004, 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 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 (Note 1)	Beneficial owner	240,000,000	75%
Silver Way Limited (Note 1)	Interest of a controlled corporation	240,000,000	75%
HSBC International Trustee Limited (Note 1)	Trustee	240,000,000	75%
Yang Tsu Ying (Note 1)	Beneficiary of a trust	240,000,000	75%
Yang Ching Yau (Note 1)	Beneficiary of a trust	240,000,000	75%
Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	240,000,000	75%
Helen Lee (Note 3)	Interest of spouse	240,000,000	75%

Notes:

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.

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.

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 March 2004, 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 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.

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) Company 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 sales of loudspeakers used in automobiles, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15th July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

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 period ended 31st March 2004, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 31st March 2004, 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 period or at any time during the period.

Sponsor's interest

As at 31st March 2004, 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 period.

Audit committee

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

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

In the audit committee meeting held on 15th April 2004, the unaudited results, major accounting and internal auditing issues of the Group for the three months ended 31st March 2004 were reviewed and reported to the Board on 16th April 2004.

Amendments to the articles of association of the Company

As announced by the Stock Exchange in its press release dated 30th January 2004, the Stock Exchange has revised the GEM Listing Rules based on the results of the Consultation Conclusions on Proposed Amendments to the Listing Rules relating to Corporate Governance Issues issued in January 2003. To ensure compliance with the revised Appendix 3 to the GEM Listing Rules which will come into effect on 31st March 2004, a special resolution for amending the articles of association ("Articles") of the Company will be proposed at the annual general meeting of the Company to be held on 28th April 2004.

Board practices and procedures

Throughout the period, 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.

On behalf of the Board,
Yang Tsu Ying
Chairman

Hong Kong, 16th April 2004