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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)

Interim Report

For the six-month ended 30th June 2004

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CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The Board of Directors (the "Board") of Sonavox International Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively "Sonavox" or the "Group") for the three-month and six-month periods ended 30th June 2004, together with the comparative figures for the corresponding periods in 2003 were as follows:

	Note	For the three-month period ended 30th June 2004		For the six-month period ended 30th June 2004	
		2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000
Turnover	2	55,762	26,037	89,073	47,418
Cost of sales		(40,883)	(17,990)	(64,858)	(32,359)
Gross profit		14,879	8,047	24,215	15,059
Other revenue		157	67	366	162
Selling and distribution expenses		(1,296)	(1,520)	(3,502)	(2,706)
General and administrative expenses		(3,107)	(2,855)	(5,728)	(5,123)
Profit from operations		10,633	3,739	15,351	7,392
Finance costs		(402)	(195)	(567)	(304)
Profit before taxation	3	10,231	3,544	14,784	7,088
Taxation	4	(2,613)	(283)	(3,750)	(1,025)
Profit after taxation and before minority interests		7,618	3,261	11,034	6,063
Minority interests		(4,072)	(1,844)	(6,042)	(3,573)
Profit attributable to shareholders		3,546	1,417	4,992	2,490
Dividends	5	512	—	512	—
Earnings per share – Basic (cents)	6	1.108	0.443	1.560	0.778
Diluted earnings per share	6	N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Note	30th June 2004 HK\$'000 (unaudited)	31st December 2003 HK\$'000 (audited)
Non-current assets			
Fixed assets		63,896	59,294
Deferred tax assets		3,989	3,685
Total non-current assets		<u>67,885</u>	<u>62,979</u>
Current assets			
Inventories	7	31,158	13,985
Trade receivables	8	41,011	37,206
Prepayments, deposits and other current assets		4,331	2,567
Cash and bank deposits		52,896	38,097
Total current assets		<u>129,396</u>	<u>91,855</u>
Current liabilities			
Trade payables	9	(46,273)	(21,541)
Accruals and other payables		(6,914)	(9,494)
Short-term bank loans		(23,575)	(12,825)
Due to minority shareholders of Mainland China subsidiaries		-	(1,174)
Taxation payable		(4,043)	(1,446)
Total current liabilities		<u>(80,805)</u>	<u>(46,480)</u>
Net current assets		<u>48,591</u>	<u>45,375</u>
Total assets less current liabilities		<u>116,476</u>	<u>108,354</u>
Financed by:			
Share capital		3,200	3,200
Reserves		66,052	63,972
Shareholders' funds		69,252	67,172
Minority interests		43,411	37,369
Non-current liabilities			
Deferred tax liabilities	10	3,813	3,813
Total equity and non-current liabilities		<u>116,476</u>	<u>108,354</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Movements of the Group's reserves 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
Surplus on revaluation of leasehold land and buildings	-	96	-	-	-	-	-	96
Profit for the six-month period	-	-	-	-	-	2,490	-	2,490
Payment of final dividend	-	-	-	-	-	-	(2,600)	(2,600)
Recognition of deferred tax liabilities	-	(26)	-	-	-	-	-	(26)
Exchange differences	-	-	-	-	(80)	-	-	(80)
	<u>25,753</u>	<u>5,259</u>	<u>3,227</u>	<u>2,441</u>	<u>108</u>	<u>23,294</u>	<u>-</u>	<u>60,082</u>
At 30th June 2003 (unaudited)								
At 1st January 2004 (audited)	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972
Profit for the six-month period	-	-	-	-	-	4,992	-	4,992
Dividends proposed	-	-	-	-	-	(512)	512	-
Payment of final dividend	-	-	-	-	-	-	(2,912)	(2,912)
	<u>25,753</u>	<u>5,259</u>	<u>4,857</u>	<u>2,441</u>	<u>125</u>	<u>27,105</u>	<u>512</u>	<u>66,052</u>
At 30th June 2004 (unaudited)								

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six-month period ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Net cash inflow generated from operations	16,179	7,025
Interest paid	(567)	(304)
Mainland China enterprise income tax paid	(1,153)	(1,561)
Net cash inflow from operating activities	14,459	5,160
Investing activities		
Interest received	24	15
Purchase of machinery and equipment	(6,348)	(5,684)
Net cash outflow from investing activities	(6,324)	(5,669)
Net cash inflow/(outflow) before financing	8,135	(509)
Financing activities		
New short-term bank loans raised	10,750	6,601
Repayment of amounts due to minority shareholders of Mainland China subsidiaries	(1,174)	(5,355)
Payment of final dividend	(2,912)	(2,600)
Net cash inflow/(outflow) from financing	6,664	(1,354)
Increase/(decrease) in cash and cash equivalents	14,799	(1,863)
Cash and cash equivalents at 1st January	38,097	41,492
Cash and cash equivalents at 30th June	52,896	39,629

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2003.

2. TURNOVER, REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of loudspeaker systems.

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

	For the six-month period ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	89,073	47,418
Other revenue		
Bank interest income	24	15
Exchange differences	286	-
Others	56	147
Total revenue	<u>89,439</u>	<u>47,580</u>

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

Approximately 64% of the Group's turnover for the six-month period ended 30th June 2004 (2003: 60%) arose from the Group's top five customers.

2. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

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

	For the six-month period ended 30th June 2004						
	Hong Kong	Mainland China	Japan	U.S.A	Europe	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*							
External sales	-	46,377	9,843	28,422	4,431	-	89,073
Inter-segment sales	6,601	22,132	-	-	-	(28,733)	-
Total turnover	<u>6,601</u>	<u>68,509</u>	<u>9,843</u>	<u>28,422</u>	<u>4,431</u>	<u>(28,733)</u>	<u>89,073</u>
Segment result	<u>(1,271)</u>	<u>8,464</u>	<u>1,796</u>	<u>5,187</u>	<u>809</u>	<u>-</u>	<u>14,985</u>
Unallocated income							366
Finance costs							(567)
Profit before taxation							14,784
Taxation							(3,750)
Profit after taxation							11,034
and before minority interests							(6,042)
Minority interests							
Profit attributable to shareholders							<u>4,992</u>
Capital expenditure	<u>-</u>	<u>6,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,348</u>
Depreciation and amortisation	<u>-</u>	<u>3,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,878</u>

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

2. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

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

	For the six-month period ended 30th June 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	-	35,048	5,069	3,196	4,105	-	47,418
Inter-segment sales	4,641	8,722	-	-	-	(13,363)	-
Total turnover	<u>4,641</u>	<u>43,770</u>	<u>5,069</u>	<u>3,196</u>	<u>4,105</u>	<u>(13,363)</u>	<u>47,418</u>
Segment result	<u>(1,274)</u>	<u>6,630</u>	<u>768</u>	<u>484</u>	<u>622</u>	<u>-</u>	<u>7,230</u>
Unallocated income							162
Finance costs							(304)
Profit before taxation							7,088
Taxation							(1,025)
Profit after taxation and before minority interests							6,063
Minority interests							(3,573)
Profit attributable to shareholders							<u>2,490</u>
Capital expenditure	-	5,684	-	-	-	-	5,684
Depreciation and amortisation	-	3,600	-	-	-	-	3,600

* 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 six-month periods ended 30th June 2003 and 30th June 2004. Depreciation and amortisation of approximately HK\$3,600,000 and approximately HK\$3,878,000 were provided for fixed assets during the six-month periods ended 30th June 2003 and 30th June 2004 respectively.

4. TAXATION

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

	For the six-month period ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Current taxation		
- Mainland China enterprise income tax	4,053	1,025
Deferred taxation	<u>(303)</u>	<u>-</u>
Taxation charges	<u>3,750</u>	<u>1,025</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 Island, accordingly, is exempt 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. Sonavox Acoustics has been reporting loss since its establishment.

No provision for Hong Kong profits tax has been made as there are no assessable profits (2003: Nil) for the subsidiaries operating in Hong Kong during the six-month period ended 30th June 2004.

5. DIVIDENDS

For the six-month period ended 30th June	
2004	2003
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Proposed interim dividend of HK0.16 cent
(2003: Nil) per ordinary share

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At a meeting held on 6th August 2004, the Directors proposed an interim dividend of HK0.16 cent per ordinary share whose names appear on the register of members on 10th September 2004 (Friday). The dividend will be payable on 11th October 2004 (Monday).

The register of members of the Company will be closed from 8th September 2004 (Wednesday) to 10th September 2004 (Friday), both days inclusive, during which period the transfer of shares will not 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 p.m. on 7th September 2004 (Tuesday).

This proposed interim dividend is not reflected as a dividend payable, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

6. EARNINGS PER SHARE

The calculation of the earnings per share for the three-month and the six-month periods ended 30th June 2004 is based on the respective unaudited consolidated profit attributable to shareholders of approximately HK\$3,546,000 and HK\$4,992,000 respectively (three-month and six-month periods ended 30th June 2003: approximately HK\$1,417,000 and HK\$2,490,000 respectively) and the weighted average number of 320,000,000 ordinary shares outstanding for the three-month and the six-month periods ended 30th June 2003 and 30th June 2004.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period end 30th June 2004 (2003: Nil).

7. INVENTORIES

Inventories consisted of:

	30th June 2004 HK\$'000 (unaudited)	As at 31st December 2003 HK\$'000 (audited)
Raw materials	12,806	7,417
Work-in-progress	2,918	1,605
Finished goods	15,434	4,963
	<u>31,158</u>	<u>13,985</u>

As 30th June 2004 and 31st December 2003, there were no inventories stated at net realisable value.

8. TRADE RECEIVABLES

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

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

	30th June 2004 HK\$'000 (unaudited)	As at 31st December 2003 HK\$'000 (audited)
0 – 30 days	26,531	18,637
31 – 60 days	4,692	9,106
61 – 90 days	3,661	5,652
91 – 180 days	5,245	3,844
181 – 360 days	1,709	319
Over 360 days	529	1,004
	<u>42,367</u>	<u>38,562</u>
Less: Provision for bad and doubtful debts	<u>(1,356)</u>	<u>(1,356)</u>
	<u>41,011</u>	<u>37,206</u>

9. TRADE PAYABLES

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

	30th June 2004 HK\$'000 (unaudited)	As at 31st December 2003 HK\$'000 (audited)
0 – 30 days	28,800	8,305
31 – 60 days	2,419	6,951
61 – 90 days	8,910	3,553
91 – 180 days	5,667	2,495
181 – 360 days	388	151
Over 360 days	89	86
	<u>46,273</u>	<u>21,541</u>

10. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2003: 27%).

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:

	As at	
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Deferred tax assets to be recovered after more than 12 months	3,989	3,685
Deferred tax liabilities to be settled after more than 12 months	<u>(3,813)</u>	<u>(3,813)</u>

The movement in deferred tax assets represented the temporary differences arising on accelerated tax depreciation of approximately HK\$304,000 credited to profit and loss account during the six-month period ended 30th June 2004

11. CONTINGENT LIABILITIES

At 30th June 2004, the Group has no capital commitment and contingent liabilities (At 31st December 2003: approximately HK\$2,050,000).

BUSINESS AND OPERATION REVIEW

Mainland China market

The Group's competitive strength has always been its ability to produce reliable products of high quality, which has allowed it to provide high performance loudspeaker systems to all its renowned customers over the years. In the past six months, with the Chinese government introducing a series of macro economic control measures to ensure stable development of the Mainland China economy, the growth of auto financing services was affected. Nevertheless, according to a China Association of Automobile Manufacturers report, output of automobiles in Mainland China for the six-month period ended 30th June 2004 reached approximately 2,677,000 units, representing an increase of 27.1% as compared with the corresponding period last year. Continuous urbanization, growing purchasing power of the urban population and the construction of more highways and road are the primary reasons for the increased automobile output. Presenting with tremendous business opportunities, the Group's sale of loudspeaker systems to markets in Mainland China also experienced a stable growth of 32% from approximately HK\$35,048,000 for the six-month period ended 30th June 2003 to approximately HK\$46,377,000 for the six-month period ended 30th June 2004.

Export market

The Group continued to reap fruitful results not only in Mainland China but also in overseas markets. With strong research and development capabilities and highly flexible production skills allowing it to tailor-make loudspeaker systems for customers, the Group successfully developed and delivered loudspeaker systems for international renowned brand names such as Ford Motor, Daihatsu Motor, Yamaha and Cerwin-vega Group, one of the industry leaders in the design and manufacture of professional audio products. Revenue generated from overseas markets increased by 245% from approximately HK\$12,370,000 for the six-month period ended 30th June 2003 to approximately HK\$42,696,000 for the six-month period ended 30th June 2004. Selling to these renowned customers not only provide the Group with stable streams of income, but also reinforces its reputation as a leading designer and manufacturer of high quality loudspeaker systems in the industry.

The breakdown of the Group's turnover by geographical area for the six-month period ended 30th June 2003 and 30th June 2004 respectively are as follows:

	For the six-month period ended 30th June			
	2004	%	2003	%
	HK\$'000		HK\$'000	
Mainland China	46,377	52	35,048	74
Japan	9,843	11	5,069	11
U.S.A.	28,422	32	3,196	7
Europe	4,431	5	4,105	8
Total	89,073	100	47,418	100

FINANCIAL REVIEW

Turnover

During the six-month period ended 30th June 2004, the Group's turnover reached approximately HK\$89,073,000, representing an increase of 87.8% compared with the turnover for the same period in 2003. The increase stemmed from the increase in export sale of loudspeaker systems to overseas customers. During the review period, the Group actively fortified its overseas market presence while maintaining its leading position in Mainland China's automobile loudspeaker industry. Mainland China remained as the Group's largest market, accounting for approximately 52% of its total turnover. For the overseas markets, previous efforts to further expand business are bearing fruit, and revenues totaled approximately HK\$42,696,000 (up 245%) were generated in markets, such as Japan, the U.S.A. and Europe. Of these markets, the U.S. outperformed Japan during the review period and became the Group's largest overseas market.

Gross profit and gross profit margin

In the six months reviewed, the Group continued its vertical integration which allowed it to effectively control manufacturing overhead and production lead time, and in turn adopt a flexible pricing policy for its loudspeaker systems. Although the cost of certain materials increased, the Group's gross profit margin remained stable at 27%.

Profit attributable to shareholders and earnings per share

The Group's profit attributable to shareholders for the six-month period ended 30th June 2004 reached approximately HK\$4,992,000, representing an increase of 100%, as compared with approximately HK\$2,490,000 in the same period of 2003. The increase was mainly due to increase in sales volume of loudspeakers systems to overseas customers.

For the six-month period ended 30th June 2004, the basic earnings per share of the Company was HK1.56 cents (2003: HK0.778 cent), representing a growth of 100% compared with the same period of 2003. No diluted earnings per share were presented, as there were no dilutive potential ordinary shares in existence during the six-month period ended 30th June 2004.

Selling and distribution expenses and administrative expenses

Compared with the corresponding period of 2003, the Group's selling and distribution expenses and administrative expenses for the six-month period ended 30th June 2004 increased by 17.8% from approximately HK\$7,829,000 to approximately HK\$9,230,000. The approximately HK\$1,401,000 increase entailed (1) the increase in staff costs and headcount of the Group; and (2) the increase in packaging cost of products for overseas sales.

The selling and distribution expenses and administrative expenses decreased from 16.5% to 10.4% of the Group's turnover for the first six-month period ended 2003 and 2004 respectively, credited to the increase in sales during the review period.

Liquidity, Financial Resources and Treasury Policies

During the six-month period ended 30th June 2004, the Group financed its business operations the bulk conducted in Mainland China primarily by the cash revenue generated from operating activities and partly by short-term bank loans. As at 30th June 2004, the Group had cash and bank deposits of approximately HK\$52,896,000 (As at 31st December 2003: approximately HK\$38,097,000).

Compared with the performance in term of current ratio (total current assets divided by total current liabilities) and gearing ratio (total current liabilities divided by shareholders' equity plus minority interests) as at 30th June 2004 and 31st December 2003, the Group's current ratio dropped from 1.97 to 1.60 and gearing ratio increased from 0.44 to 0.72. As at 30th June 2004, the Group had total current liabilities amounted to approximately HK\$80,805,000 including short-term bank loans of approximately HK\$23,575,000 bearing interest at rates ranging from 4.6% to 5.8% per annum with repayment within a year. Taking advantage of low interest costs, the Group obtained new short-term bank loan of approximately HK\$10,750,000 during the six-month period ended 30th June 2004 to further expand its production capabilities. With its asset base and profitability growing steadily and keen support from banks and investors, the Directors believe the Group have sufficient cash and bank deposits for financing its future business expansion.

The Group adopts prudent 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 European dollars ("Euros"). The Group's liquidity and financial arrangements are reviewed regularly by the Directors and senior management.

Capital Commitment and Contingent Liabilities

As at 30th June 2004, the Group has no capital commitment and contingent liabilities (As at 31st December 2003: approximately HK\$2,050,000).

Material Acquisition/Disposals and Significant Investment

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

Exposure on Exchange Rate Fluctuation

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

Banking Facilities and Pledge of Assets

As at 30th June 2004, the Group had aggregate banking facilities of approximately HK\$28,290,000 (equivalent to RMB30,000,000) for overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$4,715,000 (equivalent to RMB5,000,000). These facilities were secured by the Group's leasehold land and buildings together with a corporate guarantee given by a Mainland China subsidiary. The net book value of leasehold land and buildings was approximately HK\$22,401,000 as at 30th June 2004.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st December 2003 and 30th June 2004 is set out below:

	30th June 2004	As at 31st December 2003
Management and administration	54	41
Sales and marketing	26	20
Manufacturing and operations	1,118	776
Research and development	65	65
Quality assurance and quality control	142	67
Finance and accounting	11	11
Total	<u>1,416</u>	<u>980</u>

Remuneration of Employees and Policies

The Group sees its staff as its most important assets. Ensuring staff members are offered competitive salary packages, the Group adjusts salary levels based on individual performance, qualifications and experience as well as labour market conditions. In addition to regular remuneration, discretionary bonus and share options may be rewarded to eligible employees for outstanding performances and with reference also to the Group's business performance.

The Group maintains good labour relations and has not experienced any disruption of operations due to labour disputes. In addition to basic remuneration, the Group also provides fringe benefits in compliance to legal requirements in the Mainland China and Hong Kong. These benefits included employer contribution to the society security scheme of the Mainland China, and to the Mandatory Provident Fund Scheme of Hong Kong and staff training programmes to eligible employees.

The total staff remuneration for the six-month period ended 30th June 2004 increased to approximately HK\$11,100,000 (2003: approximately HK\$6,736,000) as more workers and administrative staff were hired in Mainland China during the period. The Directors received remuneration of approximately HK\$420,000 (2003: HK\$440,000) during the period. The Company has not granted any share option to any of its Directors and employees for either the six-month periods ended 30th June 2003 or the six months under review.

Training Schemes

The Group provides on-going training programmes for its employees to keep them abreast of the latest market trends and to enhance their knowledge of new technologies and international quality requirements. The Group also offers difference training programmes to its senior management to help them sharpen their management skills and techniques.

BUSINESS PROSPECTS

Benefiting from the growing demand for automobiles in Mainland China, the Directors believe the sale of loudspeaker systems for automobiles will remain strong. The Group is committed to maintaining its leading position in the automobile loudspeaker systems market in Mainland China.

The Group is also actively exploring new markets worldwide. It will step up its marketing efforts to promote and strengthen its corporate image and production capabilities in overseas markets, with the aim of securing leading overseas home audio and automobile market players as its customers.

To maintain the high quality standards of its products and meet customers' expectations, the Group will inject more resources into employee training, knowledge management and corporate governance.

With an excellent market position and strong competitive edges, the Directors have full confidence in Sonavox attaining even greater advancements in the future and bringing better returns to its shareholders.

OTHER INFORMATION

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

As at 30th June 2004, the interests and short positions of the Directors and Chief Executives in the Shares, underlying Shares and Debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 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 30th June 2004, none of the Directors and Chief Executives had interests or short positions in any securities or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in the Shares

So far as was known to any Director of the Company, as at 30th June 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 under Divisions 2 and 3 of Part XV 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:

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

Save as disclosed above, as at 30th June 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 under Divisions 2 and 3 of Part XV 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 Executive's Interests and Short Positions in the Shares and Debentures" and "Substantial Shareholders' Interests in the Shares", so far as is known to the Directors, there is no other person or company who has an interest or short position in the Shares, underlying Shares of the Company that is discloseable under the SFO.

Rights of Directors and Employees to Acquire Shares

Pursuant to a resolution passed on 8th July 2002, the Company has adopted the share option scheme. The principal terms of the share option scheme are summarised under the sub-section headed "Share Option Scheme" in Appendix IV to the Company's prospectus dated 15 July 2002. During the six-month period ended 30th June 2004, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 30th June 2004, none of the Directors or the employees of the Group had any rights to acquire shares.

Sponsor's Interests

As at 30th June 2004, the Company's sponsor, Deloitte & Touche Corporate Finance Ltd ("Deloitte"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

Purchase, Sale or Repurchase of the Company's Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the six-month period ended 30th June 2004.

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 (the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers used in automobiles, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15th July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

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

Audit Committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 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. Yu 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 5th August 2004, the unaudited results and the unaudited financial position, major accounting and internal auditing issues of the Group for the six-month period ended 30th June 2004 were reviewed and reported to the Board of Directors.

Comparison of Business Objectives with Actual Business Progress

On 19th July 2002, the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$31.5 million from listing. Up to 30th June 2004, the Group has applied the net proceeds as follows:

	Remaining net Proceeds as at 31st December 2003	Actual amount used up to 30th June 2004	Remaining net Proceeds as at 30th June 2004
	<i>HK\$ (in million)</i>	<i>HK\$ (in million)</i>	<i>HK\$ (in million)</i>
Strategic development and business improvement	2.4	0.2	2.2
Research and development	5.9	0.6	5.3
Sales and marketing strategy	5.9	0.7	5.2
Expansion and alliance	6.5	3.2	3.3
	<hr/>	<hr/>	<hr/>
Total	20.7	4.7	16.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The remaining net proceeds as at 30th June 2004 was approximately HK\$16 million, which have been placed as short-term interest bearing deposit with banks in Hong Kong and Mainland China.

Comparisons of the actual business progress to the business objectives set out in the prospectus for the period from 1st January 2004 to 30th June 2004 are as follows:

Business objectives as stated in the prospectus

Actual business progress/change in business objectives

Strategic development and business improvements

Commence trial production of thin-profile loudspeakers and digital-ready loudspeakers

The development of these loudspeakers are still in progress as planned

Implement training programmes for senior management and research and development staff

26 training programmes were organised during the period under review

Research and development

Develop 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 theatre

Certain loudspeaker systems used in disco floor and music halls and theatres have been successfully developed during the period. Loudspeaker systems for other application are in progress as planned

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

Certain loudspeaker systems for car models manufactured by Shanghai Volkswagen and Shanghai General Motors were tested

Sales and marketing strategy

Strengthen relationships with existing customers of the Group by organising site visits and regular meetings

The general manager and executive Director of the Group have been actively traveled to overseas for customers' site visits and meetings for new product development

Continue to enhance the Group's corporate image and capabilities

Bi-weekly advertisements were posted on automobiles related newspapers in Shanghai and Suzhou during the review period

Organise seminars to exchange ideas with market participants

In progress as planned

Expansion and alliance

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

In order for the vertical integration to be further carried out, more than 10 machines were acquired for manufacture of parts for loudspeaker systems

Commence the construction of new production facilities in other cities in the Mainland China

The construction of new production facilities located in Suzhou was commenced in July 2004

Acquire new equipment and machinery for the development of commercial and professional loudspeaker systems

In progress as planned

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

Board Practices and Procedures

During the six-month period ended 30th June 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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

Hong Kong, 6th August 2004