



**SONAVOX INTERNATIONAL HOLDINGS LIMITED**

**上聲國際控股有限公司**

(incorporated in the Cayman Islands with limited liability)



**Annual Report 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.

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

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

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

*This document, 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Biographical Details of Directors and Senior Management	11
Financial Summary	13
Report of the Directors	14
Comparison of Business Objectives with Actual Business Progress	20
Auditors' Report	24
Consolidated Profit and Loss Account	25
Consolidated Balance Sheet	26
Balance Sheet	27
Consolidated Statement of Changes in Equity	28
Consolidated Cash Flow Statement	29
Notes to the Accounts	30
Notice of Annual General Meeting	55

**DIRECTORS****EXECUTIVE DIRECTORS**

YANG Tsu Ying (*Chairman*)

YANG Ching Yau (*CEO*)

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

YIU Chi Wah

WONG Kai Tung, Simon

Fan Chi Fai, Paul

**COMPANY SECRETARY**

POON Lai Yin, Michael, HKICPA, CPA (Aust.)

**QUALIFIED ACCOUNTANT**

POON Lai Yin, Michael, HKICPA, CPA (Aust.)

**AUDIT COMMITTEE**

YIU Chi Wah

WONG Kai Tung, Simon

Fan Chi Fai, Paul

**AUTHORISED REPRESENTATIVES**

YANG Ching Yau

POON Lai Yin, Michael, HKICPA, CPA (Aust.)

**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

**AUDITORS**

PricewaterhouseCoopers

**PRINCIPAL BANKER**

The Hongkong and Shanghai Banking  
Corporation Limited

**STOCK CODE**

8226

**WEBSITE OF SUBSIDIARIES**

[www.chinasonavox.com](http://www.chinasonavox.com)

## TO OUR SHAREHOLDERS

I am pleased to present the audited consolidated results of Sonavox International Holdings Limited (the "Company") and its subsidiaries (together the "Group" or "Sonavox") for the year ended 31st December 2004.

Last year was another remarkable year for the Group. Thanks to the continuous efforts of our senior management and R&D expertise, contribution from overseas markets, in particular the market in the U.S., was impressive. With increasing order placements from a one of the leading automobile manufacturers, Ford Motor Company, in the U.S., the U.S. market replaced Japanese market as our largest overseas market. The Japanese market also continued to grow with sales recorded remarkably. We are very pleased that our development strategy for overseas markets was reaping fruitful results. We are confident that contribution from our overseas markets will continue to grow and contribute a significant portion to our total turnover.

As for the Mainland China market, growth slowed down during the year as a result of the austerity control introduced by the Mainland China government to cool down the overheated economic sectors including the automobile industry. However, with our established market presence and position in the Mainland China market, we successfully maintained our market share. We also continued to improve our R&D and production capabilities and equip ourselves with more advanced technology in the manufacture of loudspeaker systems to our renowned customers.

Business performance in the home theatre sector remained stable. We successfully established another steady revenue stream by introducing to the market a series of advanced loudspeaker systems including public announcement loudspeaker systems (PA), professional loudspeaker systems and subwoofer used in automobiles.

## PROSPECTS

Although the automobile industry has been affected by the economic austerity measures of the Mainland China government, as living standard continued to improve, the growth in demand for automobiles accelerated in the urban areas. Riding on this booming trend, we are very confident of further expanding the market share of our top quality and high performance loudspeaker systems for automobiles in the Mainland China and also maintaining our leading position in the industry.

Business expansion in overseas markets will be the Group's future growth driver. Our success in the U.S. market has boosted our confidence in expanding overseas in the future. Our largest overseas market is the U.S. and boasting high competitiveness we are in a strategic position to further open up the huge U.S. market, as well as other overseas regions. Additionally, our success in cultivating business relations with those automobile giants like Ford Motor Company in the U.S., also demonstrated our total competence in providing top quality and high performance loudspeaker systems to internationally renowned brand names.

Business performance of the home theatre sector will continue to provide stable revenue for the Group's strategic developments, reinforcing its capacities for business growth.

With our strong foundation, we are confident of capturing the abundant opportunities in year 2005. I am highly encouraged that with our persistence pursuit of quality and attention to detail, we are well positioned for achieving even better results.

### APPRECIATION

In conclusion, 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 are determined to pursue further growth in the future and bring in stable returns for our shareholders.

**Yang Tsu Ying**

*Chairman*

Hong Kong, 24th March 2005

## FINANCIAL REVIEW

The Group's financial highlights are as follows:

	2004 HK\$'million	2003 HK\$'million	(%) Change between 2003 and 2004
Turnover	205,552	115,348	78%
Gross profit	53,040	33,939	56%
Profit from operations	33,264	17,887	86%
Profit attributable to shareholders	10,086	6,363	59%
Total assets	217,235	154,834	40%
Total assets less current liabilities	133,748	108,354	23%
Shareholders' equity	73,839	67,172	10%

### Business performance ratios:

Return on total assets (%)	15%	12%	34%
Return on shareholders' funds	14%	9%	44%
Gross profit margin (%)	26%	29%	-12%
Current ratio	1.59	1.98	-19%
Quick ratio	1.32	1.68	-21%
Gearing ratio	0.62	0.43	49%

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%
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	
Quick ratio	$\frac{\text{Current assets excluding inventories}}{\text{Current liabilities}}$	
Gearing ratio	$\frac{\text{Current liabilities}}{\text{Total assets less total current liabilities}}$	

Triggered by the growth in the U.S. market, the Group achieved a turnover of approximately HK\$205,552,000, representing a jump of approximately 78% for the year ended 31st December 2004. However, the Group's gross profit margin decreased from approximately 29% to 26% due to the sharp increase in cost of manufacturing overhead and raw materials, especially that of plastic and metal parts which slightly pushed up the Group's cost of production. The sales of loudspeaker systems for automobiles installed in old car models made by existing customers also hit the Group's margin. During the year, revenue from overseas markets surged 340% from approximately HK\$28,031,000 to approximately HK\$123,213,000. The growth was mainly attributable to the increased orders placed by Japanese customers, and new orders secured from the U.S. customers. Sales from the U.S. and Japan increased approximately 994% and 68% respectively over the previous year. The U.S. market overtook Japanese market to become the Group's largest overseas market thanks to our successful business development strategy and continuous improvement in both the production capabilities and product quality.

The Group's selling and distribution expenses increased by approximately 92%. The increase was mainly attributable to the growing business relations with the U.S. and Japan during the year, leading to increased logistics and distribution cost to both countries. In addition, taxation also increased by four-fold. The significant increase was mainly the result of the expiration of previous tax concession for foreign enterprise in 2003.

Despite the increase in expenses and taxation, profit attributable to shareholders increased by approximately 59% from approximately HK\$6,363,000 to approximately HK\$10,086,000 during the year.

### **Liquidity, financial resources and treasury policies**

During 2004, the Group's major business operations took place in Mainland China, financed mainly by the cash revenue generated from operating activities and partly by short-term bank loans. As at 31st December 2004, the Group had cash and bank deposits of approximately HK\$48,493,000. The Group maintained a stable business performance in liquidity with a current ratio of approximately 1.59 and a gearing ratio of approximately 0.62 as at 31st December 2004, compared with approximately 1.98 and approximately 0.43 respectively as at 31st December 2003. The Group had short-term bank loans of approximately HK\$28,290,000 bearing interest rates ranging from 5.04% to 5.58% per annum with repayment within a year.

The Group adopts conservative treasury policies in managing its cash and financial matters, with all the Group's treasury activities centralised and carried out in Mainland China and Hong Kong. Currently, cash and bank deposits are placed in interest-bearing bank accounts 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 Board and senior management.



## CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31st December 2004, the Group has capital commitment of approximately HK\$19,838,000 in respect of the acquisition of fixed assets and operating lease commitment of approximately HK\$89,000.

Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established during the year 2004 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st December 2004, the Group had outstanding commitments of approximately US\$5,636,000 and US\$2,550,000 respectively for capital contribution to these two subsidiaries.

As at 31st December 2004, the Group did not have any significant contingent liabilities.

## 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.

## EXPOSURE ON EXCHANGE RATE FLUCTUATION

Most of the Group's purchases and expenses were denominated in RMB and Hong Kong and the Group's revenue was denominated in RMB, Hong Kong dollars, U.S. dollars and Euros during the year. Therefore, the Group's exposure on exchange rate fluctuation is minimal during the year.

## BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December 2004, the Group had aggregate banking facilities of approximately HK\$28,290,000 for overdrafts and loan financing and all the bank facilities were used. These facilities were secured by all leasehold land and buildings owned by certain Mainland China subsidiaries of the Group together with a corporate guarantee given by a Mainland China subsidiary. The carrying value of the pledged leasehold land and buildings was approximately HK\$36,400,000 as at 31st December 2004.

## DIVIDEND

The Directors have declared an interim dividend of HK0.16 cent per ordinary share, totalling HK\$512,000, which was paid on 11th October 2004.

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2004 so as to retain resources for future expansion.

## BUSINESS REVIEW

Automobile loudspeaker systems continued to be the Group's major source of revenue, accounting for approximately 85% of the Group's total turnover. At the efforts of our staff members, the Group achieved encouraging results with its overseas expansion plan.

The Group also continued to provide top quality and professional automobile loudspeaker systems to customers in the Mainland China. Although the automobile industry was affected by the economic austerity measures of the Mainland China government, riding on its established business relations with renowned automobile brand names, the Group was able to maintain its market share during the year under review.

The Group continued to deliver top quality and high performance loudspeaker systems to international audio players, successfully promoted the Group's R&D capabilities and its production capabilities among international professional audio brand names.

The Group's technical liaison and warehousing center in Italy also reaped fruitful results. During the year under review, it generated an additional revenue of approximately HK\$5,521,000 for the Group. The Directors believe that the service centre, which provides after-sales services, just-in-time goods deliveries and technical support services, will bring in stable stream of income in the coming financial year.

To boost its competitiveness and achieve vertical integration, the Group established Suzhou Shangsheng Technology Co., Ltd. in March 2004 and Suzhou Hesheng Industries Co., Ltd. in June 2004. These newly established Mainland China subsidiaries are expected to improve business synergies for the Group in 2005.

The Group emphasizes strongly on R&D. During the year, more than 70 different loudspeaker systems for automobiles were introduced to the market. In order to maintain our leading position in the highly competitive market, R&D expense increased by approximately 6% from approximately HK\$3,860,000 to approximately HK\$4,093,000 during the year ended 31st December 2004.

With regard to the Group's home theatre loudspeaker systems, turnover increased from approximately HK\$19,195,000 to approximately HK\$30,698,000, representing a significant rise of approximately 60%. During the year, we committed much of our resources to the development of high-quality home theatre loudspeaker systems, including commercial PA systems and professional loudspeaker systems for discos, music halls, theatres and studio room, which commanded higher and stable profit margins. During the year, more than 40 new models of loudspeaker systems for home theatres were introduced to the Mainland China and overseas markets.

## NEW AWARDS

In October, the Group has been awarded Certificate of Recognition of New and High Technology Enterprise by Science and Technology Office of Jiangsu Province in recognition of the development of new quality loudspeaker systems for Passat automobile model manufactured by Shanghai Volkswagen in the Mainland China.

In November, Sonavox has been awarded as one of the Hong Kong's outstanding enterprises in the "Hong Kong Outstanding Enterprise Parade 2004" organised by a famous financial magazine in Hong Kong, the Economic Digest. The award acknowledges the excellent performance of 20 listed companies in Hong Kong during 2003/04 in the areas of management, business performance and shareholders' respect. Companies are evaluated according to three widely recognised success principles, namely "Excellent Achievement in Growth", "Quality Enterprises Management" and "Shareholders' Favorite".

## NUMBER OF EMPLOYEES

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

	2004	2003
Management and administration	50	41
Sales and marketing	24	20
Manufacturing and operations	1,119	809
Research and development	51	32
Quality assurance and quality control	130	67
Finance and accounting	12	11
Total	1,386	980

## REMUNERATION OF EMPLOYEES AND POLICIES

The Group recognises that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance.

The Group enjoys good relations with staff and has not experienced any disruption of 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 Mainland China and Hong Kong including contributions to society security scheme of the Mainland China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and provision of training programmes to eligible employees.

Total remuneration incurred for the year ended 31st December 2004 increased to approximately HK\$20,115,000 (2003: HK\$16,293,000) due to increase in wages and salaries and the number of workers and management staff during the year. The Directors had received remuneration of approximately HK\$918,000 (2003: HK\$930,000) during the year ended 31st December 2004. The Company has not granted any share option to any of its Directors and employees for each of the years ended 31st December 2003 and 2004.

### TRAINING SCHEMES

The Group provides on-going training programmes for its employees to keep them abreast of the latest market trends and new technologies of loudspeaker systems, and also to enhance their knowledge on latest international quality standards. During the year, the Group provided 59 different training programmes to its management staff to sharpen their management skills and techniques.

### BUSINESS PROSPECTS

Looking ahead, the Directors are highly confident of the Group's future developments. Given the Group's success in cultivating business relations with the world's leading automobile and audio manufacturers, the Directors are very optimistic about future business co-operations with other international automobile and audio manufacturers. The Group's success in developing the U.S. market paving the way for its future business advancements in other overseas markets. Sales orders from other overseas markets will increase stably as the leading automobile manufacturers who placed trial orders before will increase their orders in year 2005. Additionally, the Group is also negotiating with one of the leading European automobile manufacturers and their response has been positive. Marketing and R&D resources will be continuously allocated in future business expansion.

Besides expanding the Group's overseas markets, the Group will also consider possible strategic alliances with competent business associates for synergistic benefits. The Directors strongly believe that through alliances with business partners, the Group will be able to capture effectively the immense opportunities ahead, hence bring steady returns to shareholders.

The Group will further boost the production capabilities to support its business growth. Riding on the Group's competence in providing top quality and reliable loudspeaker systems, more powerful performance with better quality loudspeaker systems will be developed in the coming year. Besides, an effective cost control system will also be implemented in order to maintain a healthy and stable gross profit margin.

The Directors expect 2005 to be another rewarding year, promising good returns from our continuous efforts to expand overseas and Mainland China markets. The Directors also believe that the Group's persistent strive for quality and advanced technical expertise will allow the Group to capture the immense business opportunities ahead.



## EXECUTIVE DIRECTORS

**Mr. Yang Tsu Ying**, aged 70, is the chairman 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 Mainland China. 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 35, is an executive Director, Chief Executive Officer ("CEO") 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 40, 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 is a vice president of DBS Bank Limited, Hong Kong's Communications, Telecom and Technology Department. Mr. Wong had worked for VC CEF Capital Limited and Deutsche Bank in the investment banking service for the Greater China area. Mr. Wong has over 12 years of corporate and investment banking experience. Mr. Wong holds a bachelor's degree in arts (Honour) from the University of Hong Kong, a post-graduate certificate in Hong Kong Laws from the City University of Hong Kong and the executive certificate from Paris' INSEAD on Young Manager Program.

**Mr. Fan Chi Fai, Paul**, aged 43, is a qualified accountant. Mr. Fan is a member of Institute of Chartered Accountants in England and Wales and works as Finance Director of Networks Business for Motorola (China) Electronics Ltd. Mr. Fan has obtained an honour degree in Bachelor of Accountancy, Finance and Economics from the University of Essex, U.K. He was appointed as an independent non-executive director of the Group in September 2004.

**SENIOR MANAGEMENT**

**Mr. Zhou Jian Ming**, aged 46, 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 Mainland China. 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 Mainland China and overseas.

**Mr. Pan Hui Hua**, aged 49, 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 Institute of Certified Public 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 six 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.

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

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	50,913	60,498	76,656	115,348	205,552
Cost of sales	(35,373)	(42,303)	(50,782)	(81,409)	(152,512)
Gross profit	15,540	18,195	25,874	33,939	53,040
Other revenues	446	735	244	231	266
Selling and distribution expenses	(1,298)	(1,569)	(4,123)	(4,922)	(9,440)
General and administrative expenses	(3,101)	(3,967)	(6,867)	(11,361)	(10,602)
Profit from operations	11,587	13,394	15,128	17,887	33,264
Finance costs	(518)	(535)	(536)	(684)	(1,291)
Profit before taxation	11,069	12,859	14,592	17,203	31,973
Taxation	(309)	(1,400)	(1,402)	(1,688)	(9,360)
Profit after taxation	10,760	11,459	13,190	15,515	22,613
Minority interests	(5,478)	(5,410)	(7,326)	(9,152)	(12,527)
Profit attributable to shareholders	5,282	6,049	5,864	6,363	10,086

## 2 CONSOLIDATED BALANCE SHEETS

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	101,567	76,672	132,602	154,834	217,235
Total liabilities	(51,976)	(33,850)	(33,359)	(50,293)	(87,340)
Total assets less liabilities	49,591	42,822	99,243	104,541	129,895
Minority interests	(38,198)	(25,380)	(35,841)	(37,369)	(56,056)
Net assets	11,393	17,442	63,402	67,172	73,839

The Directors have the pleasure of presenting the annual report together with the audited accounts of Sonavox International Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31st December 2004.

## **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 after completion of the 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 2004, the five largest customers accounted for approximately 67% of the Group’s total turnover and the five largest suppliers of the Group accounted for approximately 20% of the Group’s total purchases. The largest customer of the Group accounted for approximately 36% of the Group’s total turnover while the largest supplier accounted for approximately 5% 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 2004 are set out in the consolidated profit and loss account on page 25.

The Directors have declared an interim dividend of HK0.16 cent per ordinary share, totalling HK\$512,000, which was paid on 11th October 2004.

The Directors do not recommend the payment of a final dividend.



## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accounts.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2004 amounted to approximately HK\$62,348,000 (2003: HK\$58,112,000).

## 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.

## COMMITMENTS

Particulars of commitments as at 31st December 2004 are set out in Note 26 to the accounts.

## RETIREMENT PLANS

Details of the retirement plans are set out in Note 27 to the accounts.

## CONNECTED TRANSACTIONS

During the year ended 31st December 2004, 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 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

Mr. Fan Chi Fai, Paul (appointed on 30th September, 2004)

In accordance with the Articles of Association of the Company, Mr. Wong Kai Tung, Simon, and Mr. Fan Chi Fai, Paul, will retire from office and, will be eligible to offer himself 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 2005 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.

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

As at 31st December 2004, the interests and short positions of the Directors and the 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 5.46 to 5.68 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 2004, none of the Directors or the 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 5.46 to 5.68 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 December 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 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 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%
Mr. Yang Tsu Ying ( <i>Note 1</i> )	Beneficiary of a trust	240,000,000	75%
Mr. Yang Ching Yau ( <i>Note 1</i> )	Beneficiary of a trust	240,000,000	75%
Madam Yang Chuang Ching-Hsiu ( <i>Note 2</i> )	Interest of spouse	240,000,000	75%
Ms. 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 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 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.

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

## SPONSOR'S INTEREST

As at 31st December 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 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.

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

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

The development of these loudspeakers are still in progress as planned

Continue to implement training programmes for the Group's senior management and research and development staff

59 training programmes were organised during the year

### Research and development

Continue the development of commercial public announcement loudspeaker systems

Certain loudspeaker systems used in disco floor, music halls and theatres have been successfully launched during the year. 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 major auto makers in Mainland China were tested and successfully installed in their automobiles

## BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

### Sales and marketing strategy

Continue to explore overseas markets in overseas where large automobile manufacturers are located

Continue to strengthen the relationships with existing customers of the Group by organising site visits and regular meetings

Set up sales offices and technical liaison and warehousing centres overseas

Continue to enhance the Group's corporate image and capabilities

Employ at least 2 additional staff with university degrees to carry out sales and marketing plans

### Expansion and alliance

Continue the expansion and business alliance activities

Set up new production facilities in other cities of Mainland China

## ACTUAL BUSINESS PROGRESS/CHANGE IN BUSINESS OBJECTIVES

During the year, the Group successfully explored overseas market in the U.S., Japan and Europe. As a result, the Group's overseas sales has achieved a growth rate of 340% compared with that of 2003

The executive Directors, general manager and sales managers of the Group have been actively traveled to overseas for customers' site visits and meetings for new product development and follow-up of developed loudspeaker products

An U.S. company with limited liability for sales and technical liaison services will be incorporated before June 2005

Advertisements were posted on automobiles related newspapers in Shanghai and signboard in Suzhou during the year

More than 2 staff with engineering knowledge were hired to carry out sales and marketing plan of the Group in overseas during the year

In order for the vertical integration plan to be further enhanced, more than 15 machinery and equipment were acquired for manufacture of parts for loudspeaker systems

The first phase of new production facilities located in Suzhou will be completed in the second half of 2005

Up to 31st December 2004, the Group has applied the net proceeds as follows:

	Remaining net proceeds used up to 31st December 2003 HK\$ (in million)	Actual amount used up to 31st December 2004 HK\$ (in million)	Remaining net proceeds as at 31st December 2004 HK\$ (in million)
Strategic development and business improvement	2.4	0.1	2.3
Research and development	5.9	4.1	1.8
Sales and marketing strategy	5.9	4.2	1.7
Expansion and alliance	6.5	6.5	–
	20.7	14.9	5.8

The remaining net proceeds as at 31st December 2004 was approximately HK\$5.8 million, which have been placed as short-term interest bearing deposits with banks in Hong Kong.

## 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 5.28 to 5.33 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 of Directors. In this regard, members of the audit committee will liaise with the Board of Directors, 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<sup>1</sup>  
 Mr. Wong Kai Tung, Simon<sup>1</sup>  
 Mr. Fan Chi Fai, Paul<sup>1</sup>

<sup>1</sup> Independent non-executive Directors



## BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 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, 24th March 2005



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 54 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 Institute of Certified Public 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 2004, 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, 24th March 2005

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

25

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	205,552	115,348
Cost of sales		(152,512)	(81,409)
Gross profit		53,040	33,939
Other revenues	2	266	231
Selling and distribution expenses		(9,440)	(4,922)
General and administrative expenses		(10,602)	(11,361)
Operating profit	3	33,264	17,887
Finance costs	4	(1,291)	(684)
Profit before taxation		31,973	17,203
Taxation	5	(9,360)	(1,688)
Profit after taxation		22,613	15,515
Minority interests		(12,527)	(9,152)
Profit attributable to shareholders	6	10,086	6,363
Dividends	7	512	2,912
Basic earnings per share	8	HK3.15 cents	HK1.99 cents
Diluted earnings per share	8	N/A	N/A

As at 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Fixed assets	11	80,578	59,294
Deferred tax assets	23	4,075	3,685
Total non-current assets		84,653	62,979
Current assets			
Inventories	13	22,722	13,985
Trade receivables	14	56,497	37,206
Prepayments, deposits and other current assets		3,176	2,567
Due from minority shareholders of PRC subsidiaries	15	1,178	–
Due from a related company	16	516	–
Bank balances and cash	17	48,493	38,097
Total current assets		132,582	91,855
Current liabilities			
Trade payables	18	(40,446)	(21,541)
Accruals and other payables		(7,323)	(9,494)
Short-term bank loans	19	(28,290)	(12,825)
Due to minority shareholders of PRC subsidiaries	15	–	(1,174)
Taxation payable		(7,428)	(1,446)
Total current liabilities		(83,487)	(46,480)
Net current assets		49,095	45,375
Total assets less current liabilities		133,748	108,354
Financed by:			
Share capital	20	3,200	3,200
Reserves	22	70,639	63,972
Shareholders' funds		73,839	67,172
Minority interests		56,056	37,369
Non-current liabilities			
Deferred tax liabilities	23	3,853	3,813
Total equity and non-current liabilities		133,748	108,354

**YANG TSU YING**  
Chairman

**YANG CHING YAU**  
Director

As at 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Investment in subsidiaries	12	53,301	38,846
Current assets			
Prepayments, deposits and other current assets		295	365
Due from a related company		516	—
Bank balances and cash		11,960	22,637
		12,771	23,002
Current liabilities			
Accruals and other payables		(524)	(536)
Net current assets		12,247	22,466
Total assets less current liabilities		65,548	61,312
Financed by:			
Share capital	20	3,200	3,200
Reserves	22	62,348	58,112
		65,548	61,312

**YANG TSU YING**  
Chairman

**YANG CHING YAU**  
Director



# COSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
At 1st January		67,172	63,402
Surplus on revaluation, net of tax	22	55	70
Exchange differences arising on translation of the accounts of foreign subsidiaries	22	(50)	(63)
Net gains not recognised in the profit and loss account		5	7
Profit for the year	22	10,086	6,363
Dividends	22	(3,424)	(2,600)
At 31st December		73,839	67,172

# CONSOLIDATED CASH FLOW STATEMENT

29

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Net cash inflow generated from operations	24(a)	28,845	15,542
Interest paid		(1,291)	(684)
Mainland China enterprise income tax paid		(3,768)	(3,459)
Net cash inflow from operating activities		23,786	11,399
Investing activities			
Purchase of fixed assets		(19,627)	(13,202)
Disposal of fixed assets		19	—
Interest received		65	44
Net cash used in investing activities		(19,543)	(13,158)
Net cash inflow/(outflow) before financing		4,243	(1,759)
Financing	24(b)		
New bank loans		39,417	6,601
Repayment of short-term bank loans		(23,952)	—
Capital injection from minority shareholders of PRC subsidiaries		5,756	—
Increase in amount from minority shareholders of PRC subsidiaries		(2,352)	(216)
Dividends paid		(3,424)	(2,600)
Dividends paid to minority shareholders of PRC subsidiaries		(9,242)	(5,358)
Net cash inflow/(outflow) from financing		6,203	(1,573)
Increase/(decrease) in cash and cash equivalents		10,446	(3,332)
Cash and cash equivalents at 1st January		38,097	41,492
Effect of foreign exchange rate changes		(50)	(63)
Cash and cash equivalents at 31st December		48,493	38,097

## 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 Institute of Certified Public Accountants ("HKICPA"), 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.

### (B) RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (C) GROUP ACCOUNTING

#### (i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st December 2004.

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.

## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (C) GROUP ACCOUNTING (CONTINUED)

#### (i) Consolidation (continued)

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.

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 account is translated at an average rate. Exchange differences are dealt with as movement in reserves.

## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (D) 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 2004. Increases in valuation are credited to the property revaluation reserve. Decreases 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.

#### (iii) Construction in progress

Construction in progress is stated at cost. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to fixed assets when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

#### (iv) 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	10% – 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.



## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (D) FIXED ASSETS (CONTINUED)

#### (v) 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.

### (E) 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.

### (F) 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.

### (G) 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.

### (H) 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.

**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(I) 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.

**(J) 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.

**(K) 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.

## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (K) DEFERRED TAXATION (CONTINUED)

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.

### (L) 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.

### (M) 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.

### (N) 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.

## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (O) 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.

### (P) 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.

## 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:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Manufacture and sales of loudspeaker systems	205,552	115,348
Other revenues		
Interest income	65	44
Others	201	187
	266	231
Total revenues	205,818	115,579

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 67% of the Group's turnover for the year ended 31st December 2004 (2003: 58%) arose from the Group's top five customers.

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

An analysis of geographical segment is as follows:

	2004						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	-	82,339	17,167	97,542	8,504	-	205,552
Inter-segment sales	20,478	52,459	-	-	-	(72,937)	-
Total turnover	20,478	134,798	17,167	97,542	8,504	(72,937)	205,552
Segment result	(2,954)	14,401	3,003	17,061	1,487	-	32,998
Unallocated income							266
Operating profit							33,264
Finance costs							(1,291)
Profit before taxation							31,973
Taxation							(9,360)
Profit after taxation							22,613
Minority interests							(12,527)
Profit attributable to shareholders							10,086
Segment assets	105,333	137,032	1,268	28,085	1,273	(59,831)	213,160
Unallocated assets							4,075
							217,235
Segment liabilities	(38,069)	(75,493)	-	-	-	37,503	(76,059)
Unallocated liabilities							(11,281)
							(87,340)
Capital expenditure	-	29,221	-	-	-	-	29,221
Depreciation	-	7,814	-	-	-	-	7,814



## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

	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

### 3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
<b>Crediting</b>		
Interest income	65	44
Net exchange gain	489	146
Reversal of provision for bad and doubtful debts	660	–
<b>Charging</b>		
Depreciation	7,814	6,570
Staff costs (including Directors' emoluments)	20,115	16,293
Operating lease rentals in respect of premises	84	83
Research, development and testing costs	4,093	3,860
Auditors' remuneration	410	400
Provision for bad and doubtful debts	–	346
Loss on disposal of fixed assets	251	–

### 4 FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans wholly repayable within five years	1,291	684

### 5 TAXATION

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

	2004 HK\$'000	2003 HK\$'000
Current taxation		
– Mainland China enterprise income tax	9,750	2,942
Deferred taxation	(390)	(1,254)
Taxation charge	9,360	1,688

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.

## 5 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-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. The tax exemption and reduction periods of Shangsheng Electrics and Shangsheng Enterprises expired in 2003 and they are currently subject to enterprise income tax rate of 24%. Sonavox Acoustics has been reporting loss since its establishment. Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industrial Co., Ltd. were companies incorporated during the year and have not commenced operations.

No provision for Hong Kong profits tax has been made as there is no assessable profit (2003: Nil) for the subsidiaries operating in Hong Kong during the year.

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:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	31,973	17,203
Calculated at taxation rate of 27% (2003: 27%)	8,633	4,645
Effect of different taxation rates during tax holiday	–	(3,663)
Income not subject to taxation	(184)	(141)
Expenses not deductible for taxation purposes	911	880
Previously unrecognised tax losses	–	(33)
Taxation charge	9,360	1,688

## 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\$7,660,000 (2003: HK\$14,572,000).

## 7 DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK0.16 cent (2003: Nil) per ordinary share	512	–
Final, proposed, of Nil (2003: HK\$0.91 cent) per ordinary share	–	2,912
	<b>512</b>	<b>2,912</b>

The directors do not recommend the payment of a final dividend.

## 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\$10,086,000 (2003: HK\$6,363,000) and on the weighted average number of 320,000,000 (2003: 320,000,000) 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 2004 (2003: Nil).

## 9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	22,079	12,916
(Reversal of pensions)/pensions for defined contribution schemes	(1,964)	3,377
	<b>20,115</b>	<b>16,293</b>

## 10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	2004 HK\$'000	2003 HK\$'000
Executive directors:		
Fees	–	–
Basic salaries and allowances	520	540
Independent non-executive directors:		
Fees	398	390
	<b>918</b>	<b>930</b>

**10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)**

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:

	<b>2004</b>	2003
Executive directors		
– Nil to HK\$1,000,000	<b>2</b>	2
Independent non-executive directors		
– Nil to HK\$1,000,000	<b>3</b>	2
	<b>5</b>	4

During the year, each executive director received emoluments of approximately HK\$260,000 (2003: HK\$270,000) and two independent non-executive directors each received a fee of approximately HK\$180,000 (2003: HK\$195,000) and one independent non-executive director received a fee of approximately HK\$37,500 (2003: Nil).

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Basic salaries and allowances	<b>1,449</b>	1,425
Pensions	<b>30</b>	30
	<b>1,479</b>	1,455

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.



## 11 FIXED ASSETS

	2004						2003	
	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000	Total HK\$'000
Cost or valuation								
Beginning of year	36,777	2,802	30,717	6,609	3,090	2,918	82,913	70,654
Additions	627	-	8,141	1,625	80	18,748	29,221	13,202
Transfers	-	-	2,918	-	-	(2,918)	-	-
Disposals	-	-	(1,124)	-	(296)	-	(1,420)	-
Revaluation	(1,004)	-	-	-	-	-	(1,004)	(943)
End of year	36,400	2,802	40,652	8,234	2,874	18,748	109,710	82,913
Accumulated depreciation								
Beginning of year	-	1,750	15,559	4,251	2,059	-	23,619	18,180
Charge for the year	1,151	516	4,433	1,164	550	-	7,814	6,570
Disposals	-	-	(884)	-	(266)	-	(1,150)	-
Write back on revaluation	(1,151)	-	-	-	-	-	(1,151)	(1,131)
End of year	-	2,266	19,108	5,415	2,343	-	29,132	23,619
Net book value								
End of year	36,400	536	21,544	2,819	531	18,748	80,578	59,294
Beginning of year	36,777	1,052	15,158	2,358	1,031	2,918	59,294	52,474
The analysis of the cost or valuation at 31st December 2004 of the above asset is as follows:								
At cost	-	2,802	40,652	8,234	2,874	18,748	73,310	46,136
At revaluation	36,400	-	-	-	-	-	36,400	36,777
	36,400	2,802	40,652	8,234	2,874	18,748	109,710	82,913

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. All the land and buildings are stated at fair market value as at 31st December 2004 as determined by Malcom & Associates Appraisal Limited, independent qualified valuer, on a depreciated replacement cost basis.

As at 31st December 2004, all leasehold land and buildings of the Group with net book value of approximately HK\$36,400,000 (2003: HK\$36,777,000) were pledged as security for the Group's short-term bank loans.

The net book value of all the leasehold land and buildings would have been approximately HK\$22,664,000 (2003: HK\$22,966,000) had they been stated at cost less accumulated depreciation.

## 12 INVESTMENT IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	14,650	14,650
Amounts due from subsidiaries	38,651	24,196
	<b>53,301</b>	<b>38,846</b>

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 2004:

Name	Place of incorporation and kind of legal entity	Principal activities	Issued/paid up capital	Interest held
Taraki Inc. (a)	British Virgin Islands, 6th September 1991, limited liability company	Investment holding	US\$2	100%
Suzhou Shangsheng Electrics Co., Ltd. (b)	Mainland China, 27th June 1992, 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, 8th October 1997, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker components	US\$2,620,000	51%
Suzhou Sonavox Acoustics Co., Ltd. (b)	Mainland China, 20th June 2000, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems for home theatres	US\$2,500,000	51%
Suzhou Shangsheng Technology Co., Ltd. (b & c)	Mainland China, 23rd March 2004, Sino-foreign equity joint venture	Manufacture and sales of loudspeaker systems	–	51%

**12 INVESTMENT IN SUBSIDIARIES (CONTINUED)**

Name	Place of incorporation and kind of legal entity	Principal activities	Issued/ paid up capital	Interest held
Suzhou Hesheng Industries Co., Ltd. (b & c)	Mainland China, 26th April 2004, Sino-foreign equity joint venture	Manufacture and sales of parts for loudspeaker systems	–	51%
Taraki Services Company Limited	Hong Kong, 6th February 2002, limited liability company	Provision of management services to group companies	HK\$2	100%
Sonavox Electronics Company Limited (formerly known as Sonavox Trading Limited)	Samoa, 19th August 2002, limited liability company	Inactive	US\$1	100%

*Notes:*

- The shares of Taraki Inc. are held directly by the company. The shares of other subsidiaries are held indirectly.
- Suzhou Shangsheng Electrics Co., Ltd., Suzhou Shangsheng Electronics Enterprises Co., Ltd., Suzhou Sonavox Acoustics Co., Ltd., Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. are sino-foreign equity joint ventures established in Mainland China to be operated for 50 years up to 2042, 2047, 2050, 2054 and 2054 respectively.
- Suzhou Shangsheng Technology Co., Ltd. and Suzhou Hesheng Industries Co., Ltd. were established during 2004 with registered capital of US\$13,000,000 and US\$5,000,000 respectively. As at 31st December 2004, the Group had outstanding commitments of approximately US\$5,636,000 and US\$2,550,000 respectively for capital contribution to these two subsidiaries.

**13 INVENTORIES**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	<b>12,625</b>	7,417
Work-in-progress	<b>3,241</b>	1,605
Finished goods	<b>6,856</b>	4,963
	<b>22,722</b>	13,985

At 31st December 2004, there were no inventories stated at net realisable value (2003: 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 2004, ageing analysis of the Group's trade receivables was as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 30 days	<b>35,453</b>	18,637
31 – 60 days	<b>13,331</b>	9,106
61 – 90 days	<b>3,880</b>	5,652
91 – 180 days	<b>2,246</b>	3,844
181 – 360 days	<b>1,547</b>	319
Over 360 days	<b>736</b>	1,004
	<b>57,193</b>	38,562
Less: Provision for bad and doubtful debts	<b>(696)</b>	(1,356)
	<b>56,497</b>	37,206

**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 DUE FROM A RELATED COMPANY**

Details of balance due from a related company are as follows:

	<b>Group and Company</b>		
	<b>2004</b>	<b>2003</b>	<b>Maximum balance outstanding during the year</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Sonavox Electronics Limited ("Sonavox Electronics")	516	–	516

The above balance with a related company is unsecured, non-interest bearing and without fixed repayment date. Mr. Yang Tsu Ying and Mr. Yang Ching Yau, the directors have beneficial interest in Sonavox Electronics.

**17 BANK BALANCES AND CASH**

The Group's cash and bank deposits of approximately HK\$36,412,000 (2003: HK\$15,361,000) 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.

**18 TRADE PAYABLES**

At 31st December 2004, the ageing analysis of the Group's trade payables was as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 30 days	<b>24,359</b>	8,305
31 – 60 days	<b>10,060</b>	6,951
61 – 90 days	<b>4,507</b>	3,553
91 – 180 days	<b>1,108</b>	2,495
181 – 360 days	<b>404</b>	151
Over 360 days	<b>8</b>	86
	<b>40,446</b>	21,541

**19 SHORT-TERM BANK LOANS**

Short-term bank loans bore interest at rates ranging from 5.04% to 5.58% per annum and were repayable within one year. Refer to Note 25 for details of the Group's banking facilities.

**20 SHARE CAPITAL**

	<b>Authorised</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
20,000,000,000 (2003: 20,000,000,000) ordinary shares of HK\$0.01 each	<b>200,000</b>	200,000
	<b>Issued and fully paid</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
320,000,000 (2003: 320,000,000) ordinary shares of HK\$0.01 each	<b>3,200</b>	3,200

**21 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 2004, no option had been granted under the share option scheme.



## 22 RESERVES

Movements of the Group's reserves were as follows:

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves (A) HK\$'000	Group Merger reserve (B) HK\$'000	Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1st January 2004	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972
Surplus on revaluation of leasehold land and buildings	-	75	-	-	-	-	-	75
Recognition of deferred tax liabilities	-	(20)	-	-	-	-	-	(20)
Exchange differences	-	-	-	-	(50)	-	-	(50)
Profit for the year	-	-	-	-	-	10,086	-	10,086
Appropriations	-	-	754	-	-	(754)	-	-
2003 final dividend paid	-	-	-	-	-	-	(2,912)	(2,912)
2004 interim dividend paid	-	-	-	-	-	(512)	-	(512)
At 31st December 2004	25,753	5,314	5,611	2,441	75	31,445	-	70,639
At 1st January 2003	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)	-	-
2003 final dividend paid	-	-	-	-	-	-	(2,600)	(2,600)
2003 final dividend proposed	-	-	-	-	-	(2,912)	2,912	-
At 31st December 2003	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972

## 22 RESERVES (CONTINUED)

Movements of the company's reserves were as follows:

	Share premium HK\$'000	Merger reserve (B) HK\$'000	Company (Accumulated deficits)/ Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1st January 2003	25,753	19,550	(1,763)	2,600	46,140
Profit for the year	–	–	14,572	–	14,572
2003 final dividend paid	–	–	–	(2,600)	(2,600)
2003 final dividend proposed	–	–	(2,912)	2,912	–
At 31st December 2003	25,753	19,550	9,897	2,912	58,112
At 1st January 2004	25,753	19,550	9,897	2,912	58,112
Profit for the year	–	–	7,660	–	7,660
2003 final dividend paid	–	–	–	(2,912)	(2,912)
2004 interim dividend paid	–	–	(512)	–	(512)
At 31st December 2004	25,753	19,550	17,045	–	62,348

### (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.

## 23 DEFERRED TAXATION

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

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

	Accelerated tax depreciation		Provision for bad and doubtful debts		Tax losses		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Deferred tax assets</b>								
At 1st January	1,938	1,480	366	273	1,381	678	3,685	2,431
Credited/(charged) to profit and loss account	453	458	(178)	93	115	703	390	1,254
At 31st December	2,391	1,938	188	366	1,496	1,381	4,075	3,685

<b>Deferred tax liabilities</b>	<b>Revaluation of leasehold land and buildings</b>	
	2004 HK\$'000	2003 HK\$'000
At 1st January	(3,813)	(3,762)
Charged to equity	(40)	(51)
At 31st December	(3,853)	(3,813)

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:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets to be recovered after more than 12 months	4,075	3,685
Deferred tax liabilities to be settled after more than 12 months	(3,853)	(3,813)

## 24 CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	31,973	17,203
Interest income	(65)	(44)
Interest expense	1,291	684
Depreciation	7,814	6,570
Loss on disposal of fixed assets	251	—
Operating profit before working capital changes	41,264	24,413
Increase in inventories	(8,737)	(758)
Increase in trade receivables	(19,291)	(17,330)
Increase in prepayments, deposits and other current assets	(609)	(408)
Increase in due from a related company	(516)	—
Increase in trade payables	18,905	8,402
(Decrease)/increase in accruals and other payables	(2,171)	1,223
Net cash inflow generated from operations	28,845	15,542

(b) Analysis of changes in financing is as follows:

	Share capital and share premium HK\$'000	Short-term bank loans HK\$'000	Due to/ (from) minority shareholders of PRC subsidiaries HK\$'000	Minority Interests HK\$'000	Total HK\$'000
As at 1st January 2003	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
New bank loans	—	39,417	—	—	39,417
Repayment	—	(23,952)	—	—	(23,952)
Share of profit for the year	—	—	—	12,527	12,527
Share of minority interest on reserves	—	—	—	52	52
Capital injection from minority shareholders of PRC subsidiaries	—	—	—	15,350	15,350
Increase in due to/(from) minority shareholders	—	—	(2,352)	—	(2,352)
Dividends	—	—	—	(9,242)	(9,242)
At 31st December 2004	28,953	28,290	(1,178)	56,056	112,121

**24 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(c) Major non-cash transactions:**

During the year, the minority shareholders of two PRC subsidiaries transferred two pieces of land with total carrying value of approximately HK\$9,594,000 to the Group as capital contribution to the PRC subsidiaries.

**25 BANKING FACILITIES**

As at 31st December 2004, the Group had aggregate banking facilities of approximately HK\$28,290,000 (2003: HK\$14,145,000). All bank facilities were used as at 31st December 2004 (2003: HK\$12,850,000). These facilities were secured by:

- (a) pledged over all leasehold land and buildings of the Group with a carrying value of approximately HK\$36,400,000 (2003: HK\$36,777,000); and
- (b) corporate guarantee provided by a subsidiary of the company.

**26 COMMITMENTS FOR FIXED ASSETS****(A) CAPITAL COMMITMENTS**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Contracted but not provided for	<b>19,838</b>	<b>2,050</b>

**(B) COMMITMENTS UNDER OPERATING LEASES**

At 31st December 2004, the Group had aggregate minimum lease payments under non-cancellable operating lease as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Not later than one year	<b>77</b>	<b>16</b>
Later than one year and not later than five years	<b>12</b>	<b>—</b>
	<b>89</b>	<b>16</b>



## 27 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 (2003: 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 certain percentages 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 2004, the aggregate amount of the Group's employer contributions was approximately HK\$1,671,000 (2003: HK\$2,798,000).

## 28 RELATED PARTY TRANSACTIONS

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

	2004 HK\$'000	2003 HK\$'000
Sales to Asian Elite International Limited <sup>1, 2</sup>	283	–
Sales to Sonavox Electronics (Suzhou Industrial Park) Limited <sup>1, 2</sup>	–	56
Due from Sonavox Electronics Limited <sup>1</sup>	516	–
Trade receivables from Asian Elite International Limited <sup>1, 2</sup>	151	–
Trade and other receivables from Sonavox Electronics (Suzhou Industrial Park) Limited <sup>1, 2</sup>	–	469

Notes:

<sup>1</sup> These are companies in which Mr. Yang Tsu Ying and Mr. Yang Ching Yau, Directors of the Company, have beneficial interests.

<sup>2</sup> 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.

**29 ULTIMATE HOLDING COMPANY**

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

**30 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 24th March 2005.

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Sonavox International Holdings Limited (“**Company**”) will be held at Unit 1702, 17/F., Podium Plaza, No. 5 Hanoi Road, Tsimshatsui, Kowloon on Monday, 30th May 2005 at 10:00 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 2004;
2. to consider the re-election of the retiring Directors and to authorise the board (“**Board**”) of Directors to fix the Directors’ remuneration;
3. 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 (with or without modifications):

4. “**THAT:**
  - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) below) 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 during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

- (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 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 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;

## 5. “THAT:

- (a) subject to paragraph (b) below, the exercise by the directors (“**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 (“**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.”



6. “**THAT** conditional on the passing of resolutions numbered 4 and 5 above, the general mandate granted to the directors (“**Directors**”) of the Company pursuant to paragraph (a) of resolution numbered 5 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 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 5 above.”

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

Hong Kong, 24th March 2005

*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. 6 as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited will be despatched to the members of the Company together with the annual report for the financial year ended 31st December 2004.