



SONAVOX INTERNATIONAL HOLDINGS LIMITED

上聲國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8226)

First Quarterly Report For the three-month ended 31st March 2005

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

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The Stock Exchange takes no responsibility for the contents of this report, 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 report.

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

FINANCIAL RESULTS (UNAUDITED)

The board of Directors (the "Board") of Sonavox International Holdings Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (together the "Group" or "Sonavox") for the three months ended 31st March 2005. The unaudited results of the Group for the three months ended 31st March 2005 and comparative figures for the corresponding period in the financial year 2004 were as follows:

	Note	For the three months ended 31st March	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	45,523	33,311
Cost of sales		(36,184)	(23,975)
Gross profit		9,339	9,336
Other revenue		170	209
Selling and distribution expenses		(2,986)	(2,206)
General and administrative expenses		(2,746)	(2,621)
Profit from operations		3,777	4,718
Finance costs		(347)	(165)
Profit before taxation	3	3,430	4,553
Taxation	4	(386)	(1,137)
Profit before minority interests		3,044	3,416
Minority interests		(1,773)	(1,970)
Profit attributable to shareholders		1,271	1,446
Earnings per share – Basic (cents)	6	0.40	0.45
Diluted earnings per share	6	N/A	N/A

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board at 1st January 2005. Accordingly, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the HKICPA and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention.

For the year ending 31st December 2005, the Group has adopted all HKFRSs pertinent to its operations. The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement

The adoption of HKAS 17 “Leases” represents a change in accounting policy, which should be applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. In accordance with the provisions of HKAS 17 “Leases”, leasehold land and buildings should be split into the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and the buildings element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease. However, the adoption of HKAS 17 “Leases” has no significant effect on the Group’s results for the three months ended 31st March 2004 and 2005.

The adoption of other new HKFRSs does not result in substantial changes to the Group’s accounting policies except that certain presentation and disclosures of the accounts would be affected on the interim report for the six-month period ending 30th June 2005 and annual report for the year ending 31st December 2005.

2. TURNOVER

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

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

	For the three months ended 31st March	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	45,523	33,311
Other revenue		
Interest income	26	9
Others	144	200
Total revenue	<u>45,693</u>	<u>33,520</u>

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

	For the three months ended 31st March 2005						
	Hong Kong	Mainland China	Japan	USA	Europe	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*							
External sales	-	11,797	4,226	29,040	460	-	45,523
Inter-segment sales	-	810	-	-	-	(810)	-
Total turnover	<u>-</u>	<u>12,607</u>	<u>4,226</u>	<u>29,040</u>	<u>460</u>	<u>(810)</u>	<u>45,523</u>
Segment result	<u>(575)</u>	<u>1,084</u>	<u>388</u>	<u>2,668</u>	<u>42</u>	<u>-</u>	<u>3,607</u>
Unallocated income							<u>170</u>
Operating profit							3,777
Finance costs							<u>(347)</u>
Profit before taxation							3,430
Taxation							<u>(386)</u>
Profit after taxation							3,044
Minority interests							<u>(1,773)</u>
Profit attributable to shareholders							<u>1,271</u>
Depreciation and amortisation	<u>-</u>	<u>2,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,410</u>

2. TURNOVER (Continued)

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

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

3. PROFIT BEFORE TAXATION

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the three-month periods ended 31st March 2004 and 2005.

4. TAXATION

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

	2005 HK\$'000	2004 HK\$'000
Current taxation		
- Mainland China enterprise income tax at rate of 12% (2004: 12%)	455	1,401
Deferred taxation	(69)	(264)
Taxation charges	<u>386</u>	<u>1,137</u>

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

4. TAXATION (Continued)

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

Suzhou Shangsheng Electronics Co., Ltd. ("Shangsheng Electronics") 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 Electronics continued to be entitled to 50% reduction in tax rate from 1st January 2001 to 31st December 2004, being qualified as a "New and High Technology Enterprise". After the expiration of the above periods of tax exemption and reduction, Shangsheng Electronics is subject to a preferential enterprise income tax rate of 12% for the year ending 31st December 2005 since the export values of Shangsheng Electronics has contributed more than 70% of gross output value during the period.

No provision for Hong Kong profits tax has been made as there are no assessable profit (2004: Nil) made in Hong Kong during the period.

5. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31st March 2005 (2004: Nil) so as to retain resources for future expansion.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31st March 2005 were based on the unaudited profit attributable to shareholders of approximately HK\$1,271,000 (2004: HK\$1,446,000) and on the weighted average number of approximately 320,000,000 shares ordinary shares during each of the three-month periods ended 31st March 2004 and 2005.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the three-month period ended 31st March 2005.

7. RESERVES (UNAUDITED)

Movements of the Group's reserves for the three-month periods ended 31st March 2004 and 2005 were as follows:

	Share premium	Property revaluation reserve	Statutory reserves	Merger reserve	Cumulative translation adjustments	Retained Earnings	Proposed dividend	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1st January 2005 (audited)	25,753	5,314	5,611	2,441	75	31,445	-	70,639
Profit for the three-month period	-	-	-	-	-	1,271	-	1,271
At 31st March 2005 (unaudited)	<u>25,753</u>	<u>5,314</u>	<u>5,611</u>	<u>2,441</u>	<u>75</u>	<u>32,716</u>	<u>-</u>	<u>71,910</u>
At 1st January 2004 (audited)	25,753	5,259	4,857	2,441	125	22,625	2,912	63,972
Profit for the three-month period	-	-	-	-	-	1,446	-	1,446
At 31st March 2004 (unaudited)	<u>25,753</u>	<u>5,259</u>	<u>4,857</u>	<u>2,441</u>	<u>125</u>	<u>24,071</u>	<u>2,912</u>	<u>65,418</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the review period, automobile loudspeaker systems remained as the Group's major revenue stream, accounting for approximately 79% of its total turnover. The Group continued to improve its production capabilities and maintain good relationship with international renowned automakers and audio makers in the U.S.A. As a result, sales in the U.S. increased tenfold from approximately HK\$2,635,000 to approximately HK\$29,040,000.

During the review period, output of sedan cars in Mainland China dropped by approximately 7% compared with the same period last year and as a result of the severe competition in Mainland China automobile market and continuous increase in price of steel and rubber used for manufacturing of automobiles in Mainland China, carmakers squeezed their automobile selling price in order to maintain their sales volume and stable stock turnover.

Although the Group was affected by these factors, with the Group's successful market and product diversification strategy, the Group was still able to achieve 25% growth in the sale of automobile loudspeaker systems and 108% growth in the sale of home theatre loudspeaker systems, while overseas market recorded an increase of approximately 280% as compared with the corresponding period last year.

The operation of Suzhou Shangsheng Electronics Enterprises Co., Ltd. ("Shangsheng Enterprises") was combined with Shangsheng Electric during the review period (the "Combined Operation"). The Directors believed that the Combined Operation will further enhance the Group's vertical integration plan and effectively utilise the Group's resources.

Financial Review

During the three months ended 31st March 2005, the Group achieved a turnover of approximately HK\$45,523,000 (2004: HK\$33,311,000), representing a 37% leap as compared with the same corresponding period of year 2004. Due to the continuous increase in manufacturing overhead and material costs for overseas customers together with the drop in selling price for sale of automobile loudspeaker systems in Mainland China during the review period, the gross profit margin decreased from 28% to 21%.

The Group's total expenses for the three months ended 31st March 2005 increased by 42% from approximately HK\$30,104,000 to approximately HK\$42,649,000. The increase was mainly attributable to the higher level of business operations in the U.S. and the continuous expansion of the Group's production capabilities in the Mainland China. The selling and distribution expenses increased by approximately 35% from approximately HK\$2,206,000 to approximately HK\$2,986,000 was mainly attributable to the growing business relations with automakers in the U.S. and Europe during the period, leading to increased sales and marketing cost incurred for these markets. As a result of the substantial increase in total expenses, profit attributable to shareholders dropped by 12% from approximately HK\$1,446,000 to approximately HK\$1,271,000. Earnings per share were HK0.40 cent (2004: HK0.45 cent).

Liquidity, Financial Resources and Treasury Policies

During the three months ended 31st March 2005, the Group's major business operations took place in Mainland China, being financed mainly by the cash revenue generated from operating activities and partly from short-term bank loans.

As the Group has been continuously expanding its loudspeaker business in Mainland China and overseas markets, as well as implementing its production integration plan, capital expenditure of approximately HK\$1,025,000 was incurred during the period. As at 31st March 2005, the Group had cash and bank deposits of approximately HK\$47,330,000. The Group maintained a stable business performance in liquidity with a current ratio of 1.56 (As at 31st December 2004: 1.98) and a gearing ratio of 0.70 as at 31st March 2005 (As at 31st December 2004: 0.62). The Group took the advantage of comparatively low interest expense incurred by borrowing short-term bank loans of approximately HK\$21,689,000 as at 31st March 2005 bearing interest rates ranging from 5.04% to 5.58% per annum with repayment within a year in Mainland China.

The Group adopts conservative treasury policies in managing its cash and financial matters in Hong Kong and Mainland China. Currently, cash and bank deposits are placed in interest-bearing bank accounts in Hong Kong and Mainland China denominated in Hong Kong dollars, Renminbi ("RMB"), the U.S. dollars and European dollars ("Euro"). The Group's liquidity and financial arrangements are reviewed regularly by the Directors and senior management.

Capital Commitments and Commitments under Operating Leases

As at 31st March 2005, the Group had capital commitment of approximately HK\$19,820,000 in respect of the acquisition of fixed assets in Mainland China and operating lease commitment of approximately HK\$68,000 in Hong Kong.

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 March 2005, 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 March 2005, 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

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

Banking Facilities and Pledge of Assets

As at 31st March 2005, the Group had aggregate banking facilities of approximately HK\$28,290,000 (equivalent to RMB30,000,000) for overdrafts and loan financing. The banking facilities were granted by a bank in Mainland China. Unused facilities as at the same date amounted to approximately HK\$6,601,000 (equivalent to RMB7,000,000). These facilities were secured by the land use rights and buildings owned by certain Mainland China subsidiaries of the Group together with a corporate guarantee given by a Mainland China subsidiary.

Number of Employees

A breakdown of the number of employees of the Group by function as at 31st March 2005 and 31st December 2004 were set out below:

	As at 31st March 2005	As at 31st December 2004
Management and administration	52	50
Sales and marketing	24	24
Manufacturing and operations	1,046	1,119
Research and development	52	51
Quality assurance and quality control	130	130
Finance and accounting	12	12
	<hr/>	<hr/>
Total	<u>1,316</u>	<u>1,386</u>

Remuneration of Employees and Policies

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

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

Total remuneration of approximately HK\$5,165,000 incurred for the three months ended 31st March 2005 (2004: HK\$5,937,000). The Directors had received remuneration of approximately HK\$248,000 (2004: HK\$250,000) during the three months ended 31st March 2005.

Training Schemes

The Group provides on-going training programmes for its employees in order to keep them abreast of the latest market trends and new technologies of loudspeaker systems as well as to enhance their knowledge on new requirements of international standards. The Group also provides difference training programmes to its senior management in order to update their management skills and techniques.

Business Prospects

Looking ahead in the year 2005, the Group will not only maintain its market share in Mainland China market, but also will further accelerate its development pace in overseas markets. The Group plans to expand its sales network by setting up operating subsidiary company in Detroit, the U.S., where the major U.S. car makers locate.

Although the current economic factors in Mainland China and overseas markets, the Directors strongly believe that the Group will benefit from its sales network and long-term relationships with its renowned customers in the automobile industry. Furthermore, all car makers from Europe, Japan and the U.S. will continuously raise local content of their cars made in Mainland China in order to further cut costs and to response the worldwide automobile market. As such, a strong foothold in Mainland China and overseas markets is expected to be further established in the year 2005.

To capture opportunities arising in the professional audio and home theatre markets in the overseas markets, the Group will stay competitive by expanding research and development activities and allocating appropriate resources to developing new models while improving the quality, performance and functionality of the Group's major products.

OTHER INFORMATION

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the period.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the Companies Law (Revised) of the Cayman Islands.

Connected transactions

During the period, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("the GEM Listing Rules").

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

As at 31st March 2005, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Directors' and Chief Executives' Interests or Short Positions in the Shares or Debentures *(Continued)*

Long positions in the shares

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

Note:

These shares are registered in the name of Newwood Consultancy Limited, a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.

Save as disclosed in this paragraph, as at 31st March 2005, none of the Directors and Chief Executives had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 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 March 2005, the persons or companies (not being a Director of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the shares

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

Substantial Shareholders *(Continued)*

Notes:

Newood Consultancy Limited is a company wholly owned by Silver Way Limited. The entire issued share capital of Silver Way Limited is in turn owned by HSBC International Trustee Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau.

Madam Yang Chuang Ching-Hsiu is the spouse of Mr. Yang Tsu Ying and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares in which Mr. Yang Tsu Ying is interested.

Ms. Helen Lee is the spouse of Mr. Yang Ching Yau and, under section 316 of the SFO, is therefore deemed to be interested in all 240,000,000 shares in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 31st March 2005, the Directors were not aware of any other person or company who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

Other interests discloseable under the SFO

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

Directors' interest in competing business

The Group's ultimate controlling shareholders and executive Directors, Mr. Yang Tsu Ying and Mr. Yang Ching Yau, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sales of loudspeakers used in automobiles, Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15th July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

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

Rights of Directors and employees to acquire shares or debentures

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

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

During the period ended 31st March 2005, none of the Directors or the employees of the Group was granted options to subscribe for shares. As at 31st March 2005, none of the Directors or the employees of the Group had any rights to acquire shares.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

Corporate Governance and Audit committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Company.

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

In the audit committee meeting held on 12th May 2005, the unaudited results, major accounting and internal auditing issues of the Group for the three months ended 31st March 2005 were reviewed and reported to the Board of Directors.

Board practices and procedures

Throughout the period, 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.

On behalf of the Board,
Yang Ching Yau
Executive Director

Hong Kong, 13th May 2005