



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)

For the six-month period ended 30th June 2005 Interim Report 2005

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The Board of Directors (the "Board") of Sonavox International Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively "Sonavox" or the "Group") for the three-month and six-month periods ended 30th June 2005, together with the comparative figures for the corresponding periods in 2004 were as follows:

	Note	For the three months ended 30th June		For the six months ended 30th June	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	59,590	55,762	105,113	89,073
Cost of good sold		(48,087)	(40,883)	(84,270)	(64,858)
Gross profit		11,503	14,879	20,843	24,215
Other revenue and gains, net		158	157	328	366
Selling and marketing costs		(2,958)	(1,296)	(5,944)	(3,502)
Administrative expenses		(4,794)	(3,107)	(7,540)	(5,728)
Operating profit		3,909	10,633	7,687	15,351
Finance costs		(291)	(402)	(639)	(567)
Profit before income tax	3	3,618	10,231	7,048	14,784
Income tax expense	4	(586)	(2,613)	(972)	(3,750)
Profit for the six-month period		3,032	7,618	6,076	11,034
Attributable to:					
Equity holders of the Company		227	3,546	1,498	4,992
Minority interests		2,805	4,072	4,578	6,042
		3,032	7,618	6,076	11,034
Earnings per share for profit attributable to the equity holders of the Company during the six-month period					
- Basic (cents per share)	5	0.071	1.108	0.468	1.560
- Diluted (cents per share)	5	0.068	N/A	0.451	N/A
Dividends	6	-	512	-	512

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Note	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
ASSETS			
Non-current assets			
Fixed assets		57,202	55,486
Leasehold land and land use rights		24,838	25,092
Deferred income tax assets	10	4,337	4,075
		86,377	84,653
Current assets			
Inventories	7	27,682	22,722
Trade receivables	8	50,298	56,497
Prepayments, deposits and other current assets		3,199	3,176
Due from minority shareholders of Mainland China subsidiaries		-	1,178
Due from a related company		516	516
Cash and bank deposits		47,157	48,493
Total current assets		128,852	132,582
Total assets		215,229	217,235
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		3,200	3,200
Other reserves		41,119	39,194
Retained earnings		31,962	31,445
Shareholders' funds		76,281	73,839
Minority interests		48,111	56,056
Total equity		124,392	129,895
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10	3,853	3,853
Current liabilities			
Trade payables	9	44,802	40,446
Accruals and other payables		7,017	7,323
Short-term bank loans		34,107	28,290
Taxation payable		1,058	7,428
Total current liabilities		86,984	83,487
Total liabilities		90,837	87,340
Total equity and liabilities		215,229	217,235
Net current assets		41,468	49,095
Total assets less current liabilities		127,845	133,748

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Movements of the Group's reserves were as follows:

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserve HK\$'000	Merger reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained earnings HK\$'000	Proposed Dividend HK\$'000	Total HK\$'000
At 1st January 2005 (audited)	25,753	5,314	5,611	2,441	-	75	31,445	-	70,639
Profit for the six-month period	-	-	-	-	-	-	1,498	-	1,498
Exchange difference	-	-	-	-	-	-	-	-	-
Appropriations	-	-	981	-	-	-	(981)	-	-
Share option benefits	-	-	-	-	944	-	-	-	944
At 30th June 2005 (unaudited)	<u>25,753</u>	<u>5,314</u>	<u>6,592</u>	<u>2,441</u>	<u>944</u>	<u>75</u>	<u>31,962</u>	<u>-</u>	<u>73,081</u>
At 1st January 2004 (audited)	25,753	5,259	4,857	2,441	-	125	22,625	2,912	63,972
Profit for the six-month period	-	-	-	-	-	-	4,992	-	4,992
Dividends proposed	-	-	-	-	-	-	(512)	512	-
Payment of final dividend	-	-	-	-	-	-	-	(2,912)	(2,912)
At 30th June 2004 (unaudited)	<u>25,753</u>	<u>5,259</u>	<u>4,857</u>	<u>2,441</u>	<u>-</u>	<u>125</u>	<u>27,105</u>	<u>512</u>	<u>66,052</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Net cash (used in)/generated from operating activities	<u>(6,924)</u>	<u>14,459</u>
Net cash used in investing activities	<u>(1,407)</u>	<u>(6,324)</u>
Net cash generated from financing activities	<u>6,995</u>	<u>6,664</u>
Net (decrease)/increase in cash and bank deposits	<u>(1,336)</u>	<u>14,799</u>
Cash and bank deposits at 1st January	<u>48,493</u>	<u>38,097</u>
Cash and bank deposits at 30th June	<u>47,157</u>	<u>52,896</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

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
HKFRS 2	Share-based Payments

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 27 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group's entities have the same functional currency denominated in Hong Kong dollars as the presentation currency for financial statements of the respective entities.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value. However, the adoption of HKAS 17 has no significant effect on the Group's results for the six months ended 30th June 2004 and therefore no prior year adjustment was presented.

The adoption of HKFRS 2 requires an expense to be recognised where the Group buys good and services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of HKFRS 2 on the unaudited operating results of the Group for the six months ended 30th June 2005 was the directors' share options expense of approximately HK\$944,000 recognised in administrative expenses over the six-month period. The share option expense is the fair value of the option granted which is estimated at the date of share option granted using Black-Scholes option pricing model with the following assumptions used: dividend yield of HK\$nil, expected volatility of 41.77% and a risk-free rate of return of approximately 3.5%, being the yield of the Hong Kong Exchange Fund Notes for a period of about 10 years.

2. TURNOVER, REVENUE AND SEGMENT REPORTING

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

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

	For the six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	105,113	89,073
Other revenue		
Bank interest income	49	24
Exchange differences	-	286
Sale of scrap materials	135	-
Others	144	56
	<hr/> 105,441 <hr/>	<hr/> 89,439 <hr/>
Total revenue	105,441	89,439

2. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

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

Approximately 71% of the Group's turnover for the six months ended 30th June 2005 (2004: 60%) arose from the Group's top five customers.

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

	For the six-month period ended 30th June 2005						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	-	33,597	8,554	60,512	2,450	-	105,113
Inter-segment sales	-	3,357	-	-	-	(3,357)	-
Total turnover	-	36,954	8,554	60,512	2,450	(3,357)	105,113
Segment result	(2,310)	3,090	787	5,566	226	-	7,359
Unallocated income							328
Finance costs							(639)
Profit before taxation							7,048
Taxation							(972)
Profit after taxation and before minority interests							6,076
Minority interests							(4,578)
Profit attributable to shareholders							1,498
Capital expenditure	-	1,508	-	-	-	-	1,508
Depreciation	-	3,979	-	-	-	-	3,979

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

2. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

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

	For the six-month period ended 30th June 2004						
	Hong Kong	Mainland	Japan	U.S.A.	Europe	Eliminations	Group
	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*							
External sales	-	46,377	9,843	28,422	4,431	-	89,073
Inter-segment sales	6,601	22,132	-	-	-	(28,733)	-
Total turnover	<u>6,601</u>	<u>68,509</u>	<u>9,843</u>	<u>28,422</u>	<u>4,431</u>	<u>(28,733)</u>	<u>89,073</u>
Segment result	<u>(1,271)</u>	<u>8,464</u>	<u>1,796</u>	<u>5,187</u>	<u>809</u>	<u>-</u>	<u>14,985</u>
Unallocated income							366
Finance costs							(567)
Profit before taxation							14,783
Taxation							(3,750)
Profit after taxation and before minority interests							11,034
Minority interests							(6,042)
Profit attributable to shareholders							<u>4,992</u>
Capital expenditure	<u>-</u>	<u>6,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,348</u>
Depreciation	<u>-</u>	<u>3,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,878</u>

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

3. PROFIT BEFORE INCOME TAX

The Group had no income generated from investment or disposal of investments, subsidiaries, associates, land use rights or properties for the six-month periods ended 30th June 2004 and 2005.

4. INCOME TAX EXPENSE

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

	For the six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Current taxation		
- Mainland China enterprise income tax	1,232	4,053
Deferred taxation	(260)	(303)
Taxation charges	<u>972</u>	<u>3,750</u>

4. INCOME TAX EXPENSE (Continued)

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

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-making 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 Electrics Co., Ltd. ("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 2004, being qualified as a "New and High Technology Enterprise". After the expiration of the above periods of tax exemption and reduction, Shangsheng Electrics is subject to a preferential enterprise income tax rate of 12% for the year ending 31st December 2005 since the export values of Shangsheng Electrics 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 profits (2004: Nil) for the subsidiaries operating in Hong Kong during the six-month period.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share (unaudited) is as follows:

	For the three months ended 30th June		For the six months ended 30th June	
	2005	2004	2005	2004
Profit attributable to shareholders (in HK\$'000)	227	3,546	1,498	4,992
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	320,000	320,000	320,000	320,000
Potential dilutive shares Share options (in '000)	12,000	-	12,000	-
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	332,000	320,000	332,000	320,000
Earnings per share – Basic (cents)	0.071	1.108	0.468	1.560
Earnings per share – Diluted (cents)	0.068	N/A	0.451	N/A

6. DIVIDENDS

	For the six-month period ended 30th June 2005	
	HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Interim, proposed, of Nil (2004: HK0.16 cent) per ordinary share	<u> -</u>	<u> 512</u>

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

7. INVENTORIES

Inventories consisted of:

	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
Raw materials	11,953	12,625
Work-in-progress	5,491	3,241
Finished goods	10,238	6,856
	<u>27,682</u>	<u>22,722</u>

As 30th June 2005 and 31st December 2004, there were no inventories stated at net realisable value.

8. TRADE RECEIVABLES

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

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

	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
0 – 30 days	26,767	35,453
31 – 60 days	7,447	13,331
61 – 90 days	4,128	3,880
91 – 180 days	5,700	2,246
181 – 360 days	6,532	1,547
Over 360 days	420	736
	<u>50,994</u>	<u>57,193</u>
Less: Provision for bad and doubtful debts	<u>(696)</u>	<u>(696)</u>
	<u>50,298</u>	<u>56,497</u>

9. TRADE PAYABLES

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

	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
0 – 30 days	18,496	24,359
31 – 60 days	9,235	10,060
61 – 90 days	10,273	4,507
91 – 180 days	6,310	1,108
181 – 360 days	480	404
Over 360 days	8	8
	<u>44,802</u>	<u>40,446</u>

10. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 27% (2004: 27%).

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

	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
Deferred tax assets to be recovered after more than 12 months	4,337	4,075
Deferred tax liabilities to be settled after more than 12 months	<u>(3,853)</u>	<u>(3,853)</u>

The movement in deferred tax assets represented the temporary differences arising on accelerated tax depreciation of approximately HK\$262,000 (2004: HK\$304,000) credited to profit and loss account during the six-month period ended 30th June 2005.

11. COMMITMENTS FOR FIXED ASSETS

	30th June 2005 HK\$'000 (unaudited)	31st December 2004 HK\$'000 (audited)
Contracted but not provided for	<u>17,495</u>	<u>19,838</u>

12. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, and suppliers or customers of the Group. The Scheme became effective on 8th June 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years commencing on the effective date.

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The offer of a grant of the option may be accepted within 21 days from the date of the offer. The exercise period of the share option granted is determinable by the Board of Directors, and in any event not later than 10 years from the date of grant of the option.

The exercise price of the share option is determinable by the Board of Directors, but shall not be less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share.

Pursuant to a Directors' resolution passed on 28th June 2005, the following share options were outstanding under the Scheme as at 30th June 2005:

Name of grantees (relationships with the Group)	Date of grant	Date of acceptance	Exercise period	Subscription price HK\$	Number of Approximate shares under % to the total the option issued capital	
Mr. Yang Tsu Ying (Chairman of the Group)	28th June 2005	28th June 2005	28th June 2005 to 27th June 2015	0.345	2,000,000	0.625
Mr. Yang Ching Yau (Chief Executive Officer of the Group)	28th June 2005	28th June 2005	28th June 2005 to 27th June 2015	0.345	2,000,000	0.625
Mr. Zhou Jian Ming (General manager of the Group)	28th June 2005	1st July 2005	1st July 2005 to 30th June 2015	0.345	2,000,000	0.625
Mr. Poon Lai Yin, Michael (Chief Financial Officer of the Group)	28th June 2005	1st July 2005	1st July 2005 to 30th June 2015	0.345	2,000,000	0.625
Mr. Lin Chien Hung (Controller of management)	28th June 2005	1st July 2005	1st July 2005 to 30th June 2015	0.345	2,000,000	0.625
Mr. Dennis Crosson (Controller of business development)	28th June 2005	1st July 2005	1st July 2005 to 30th June 2015	0.345	2,000,000	0.625

BUSINESS AND OPERATION REVIEW

During the review period, automobile loudspeaker systems remained as the Group's major revenue stream, accounted for approximately 81% of its total turnover. Although the Group was affected by the severe competition in the China automobile market and forced the Group to reduce selling price for sale of automobile loudspeaker systems, the Group was still able to achieve 12% growth in its automobile loudspeaker systems sales with its successful market diversification strategy. Automobile loudspeaker systems sales in overseas markets still achieve a significant growth of 67%, while Mainland China market recorded a decrease of approximately 28% as compared with the corresponding period last year.

During the review period, the U.S. sales order increased and achieved an impressive growth of 113%. Germany automobile market is another potential overseas markets of the Group. During the past three months, the Group's loudspeaker systems for automobiles have been approved by a renowned German automaker, the Directors believed that sales order will be received when certain procurement processes have been confirmed. As a result of the foreseeable increase in sales volume, the Group will continuously but conservatively expanded its capacity and capabilities in Suzhou and continued to maintain good relationship with overseas automakers.

A newly incorporated subsidiary, Detroit Sonavox Inc., was established in Detroit, the U.S. The new subsidiary in Detroit consists of trained staff teams who will provide customers with after-sales services, engineering support and sales centre in the U.S. The Directors believed that this newly incorporated U.S. subsidiary will help the Group to grasp a larger market share in the U.S. and significantly increase the Group's revenue from this market.

During the six-months ended 30th June 2005, the Group has been awarded ISO/TS 16949: 2002 by TÜV Management Service GmbH in the recognition of the Group's application of quality management system for design, production and sales of loudspeakers.

Sale of home theatre loudspeaker systems brought in a total turnover of approximately HK\$19 million, representing a growth of 58% compared with the corresponding period last year. The growth of sale in loudspeaker systems for home theatres was mainly attributable to the continuous R&D and product improvements.

FINANCIAL REVIEW

Turnover

During the six-month period ended 30th June 2005, the Group's turnover increased by 18% from approximately HK\$89 million to HK\$105 million. The increase in turnover was mainly due to the increase in sale of loudspeaker systems for the U.S. customers and became the Group's largest market, accounted for approximately 57% of total turnover. During the review period, the Group actively pursued its overseas market presence while maintaining its leading position in the China's OEM automobile loudspeaker industry. The Mainland China became the Group's second largest market, accounted for approximately 31% of total turnover.

Gross profit and gross profit margin

During the review period, prompted by the severe market competition in automobile industry and the continuous increase in crude oil prices which resulted in the cost of raw materials substantially increased, together with the decrease in average selling price of automobile loudspeaker systems for overseas markets, squeezing the Group's gross profit margin to approximately 20% compared with 27% of that of the corresponding period last year. The Directors believed that the high raw material prices and manufacturing overhead will be temporary and certain fixed costs will be absorbed by substantial increase in production volume in the coming months, such that the Group's profit margin will stably improve.

Selling and marketing costs and administrative expenses

Compared with the same corresponding period of 2004, the Group's selling and marketing costs and administrative expenses for the six-month period ended 30th June 2005 substantially increased by 46% from approximately HK\$9,230,000 to approximately HK\$13,484,000. The increase of approximately HK\$4,254,000 was primarily due to the increase in sales commission paid to overseas agents and the share option expense of approximately HK\$944,000 (2004: Nil) was recognised for the six-month period ended 30th June 2005 as a result of the adoption of HKFRS 2.

Profit attributable to shareholders and earnings per share

The Group's profit attributable to shareholders for the six-month period ended 30th June 2005 reached approximately HK\$1,498,000, representing a decrease of 70%, as compared to approximately HK\$4,992,000 in the same corresponding period of 2004.

For the six-month period ended 30th June 2005, the basic earnings per share of the Company was HK0.468 cent (2004: HK 1.56 cent), representing a drop of 70% compared with the same corresponding period of 2004. Diluted earnings per share of the Company of HK0.451 cent was presented as the grant of share options were dilutive at the end of June 2005. No diluted earnings per share of the Company was presented for the same corresponding period of last year as there were no dilutive potential ordinary shares.

Liquidity, Financial Resources and Treasury Policies

During the six-month period ended 30th June 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 at 30th June 2005, the Group had cash and bank deposits of approximately HK\$47,157,000 (As at 31st December 2004: approximately HK\$48,493,000).

Compared with the performance in term of current ratio (total current assets divided by total current liabilities) and gearing ratio (total current liabilities divided by shareholders' equity plus minority interests) as at 30th June 2005 and 31st December 2004, the Group's current ratio was reduced from 1.59 to 1.47 and gearing ratio was increased from 0.62 to 0.74. As at 30th June 2005, the Group had total current liabilities amounted to approximately HK\$87,384,000 included short-term bank loans of approximately HK\$34,107,000 bearing interest at rates ranging from 5.04% to 5.58% per annum with repayment within a year. Take the advantage of low finance costs and the need of further capabilities expansion, the Group obtained new short-term bank loan facilities amounted to approximately HK\$28,290,000 (equivalent to RMB30,000,000) during the six-month period.

Liquidity, Financial Resources and Treasury Policies *(Continued)*

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

Capital Commitment and Contingent Liabilities

As at 30th June 2005, the Group has capital commitment of approximately HK\$17,495,000 in respect of the acquisition of fixed assets in Mainland China (31st December 2004: approximately HK\$19,838,000).

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 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 30th June 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

Most of the Group's transactions, including borrowings, were conducted in RMB, Hong Kong dollars, Euro and U.S. dollars during the period. The Group did not enter into derivative contracts to hedge its exposure to fluctuations in foreign currencies as the associated cost outweighed the benefit of entering such derivative contracts.

Banking Facilities and Pledge of Assets

As at 30th June 2005, the Group had aggregate banking facilities of approximately HK\$56,580,000 overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$22,473,000. These facilities were secured by the Group's leasehold land and buildings 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 December 2004 and 30th June 2005 is set out below:

	As at	
	30th June	31st December
	2005	2004
Management and administration	52	50
Sales and marketing	23	24
Manufacturing and operations	1,061	1,119
Research and development	52	51
Quality assurance and quality control	130	130
Finance and accounting	12	12
	<hr/>	<hr/>
Total	<u>1,330</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 comply with the relevant laws and regulations of the Mainland China and Hong Kong in relation thereto including contributions to society security scheme of the Mainland China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and staff training programmes to eligible employees.

Total remuneration incurred for the six months ended 30th June 2005 increased by 2% from approximately HK\$11,100,000 to approximately HK\$11,321,000. The Directors had received remuneration of approximately HK\$416,000 (2004: HK\$420,000) during the period.

Training Schemes

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

BUSINESS PROSPECTS

In 2005, China's automobile market continued to grow. However, due to fierce competition, price cutting became the prevailing trend of the market for 2005. The current automobile market is experiencing a reshuffling period as there is keen competition among automakers and their products, and these automakers keep introducing new means of competition. At the same time, as the market opens up and Mainland China revamps its tariff policy, imported cars have increasing impact on Mainland China's automobiles market. Nevertheless, due to its huge market potential, as the competition situation stabilizes and the price policy gets clearer, the market is expected to hit new highs of sales revenue in the coming period. In view of the current market situation, the Directors believe that the sale of loudspeaker systems for automobiles will remain strong. The Group is committed to maintaining its leading position in the loudspeaker systems for automobiles markets in Mainland China.

The Group is currently eyeing on the worldwide markets rather than limiting itself to Mainland China market. Management will continuously increase its marketing effort to promote the corporate image and the Group's capabilities in overseas markets, attracting leading overseas home audio and automobile market players.

With the aim of maintaining good quality standards and meeting customers' expectations, the Group would put in more resources in employee's training, knowledge management and corporate governance.

In view of the Group's excellent market position and strong competitive-edge, the Directors strongly believe that Sonavox will gain even greater advancements in the future and bring better return to the shareholders.

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

As at 30th June 2005, the interests and short positions of the Directors and Chief Executives in the Shares, underlying Shares and Debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Type of interests	Capacity	Number of Shares	Percentage of equity 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%

(b) Long positions in the shares of equity derivatives of the Company

Name of Director	Capacity	Description of equity derivatives	Number of Shares	Percentage of equity interest
Mr. Yang Tsu Ying (Note)	Beneficial owner	Share option	2,000,000	0.625%
Mr. Yang Ching Yau (Note)	Beneficial owner	Share option	2,000,000	0.625%

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

Save as disclosed in this paragraph, as at 30th June 2005, none of the Directors and Chief Executives had interests or short positions in any securities or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 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 30th June 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 under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(a) Long positions in the shares of the Company

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

(b) Long positions in the shares of equity derivatives of the Company

Name	Capacity	Description of equity derivatives	Number of ordinary Shares	Percentage of equity interest
Yang Tsu Ying (Note 1)	Beneficial owner	Share option	2,000,000	0.625%
Yang Ching Yau (Note 1)	Beneficial owner	Share option	2,000,000	0.625%
Yang Chuang Ching-Hsiu (Note 2)	Interest of spouse	Share option	2,000,000	0.625%
Helen Lee (Note 3)	Interest of spouse	Share option	2,000,000	0.625%

Notes:

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

Save as disclosed above, as at 30th June 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 under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Other Interests Discloseable under the SFO

Save as disclosed in the preceding paragraphs headed "Directors' and Chief Executive's Interest and Short Positions in the Shares and 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 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.

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.

Audit Committee

The Company established an audit committee on 8th July 2002 with written terms of reference in compliance with Appendix 15 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 members include:

Mr. Fan Chi Fai, Paul* – *Committee Chairman*
Mr. Yiu Chi Wah*
Mr. Wong Kai Tung, Simon*

* *Independent non-executive director*

In the audit committee meeting held on 11th August 2005, the unaudited results and the unaudited financial position, major accounting and internal auditing issues of the Group for the six-month period ended 30th June 2005 were reviewed and reported to the Board of Directors.

Nomination Committee

The Nomination Committee was established on 28th June 2005 with written terms of reference in compliance with Appendix 15 of the GEM Listing Rules and chaired by the independent non-executive director to make recommendations to the Board on the appointment of directors and the senior management personnel with reference to certain guidelines as endorsed by the Nomination Committee members. The Nomination Committee members include a majority of independent non-executive directors as follows:

Mr. Wong Kai Tung, Simon* – *Committee Chairman*
Mr. Yang Ching Yau
Mr. Yiu Chi Wah*

* *Independent non-executive director*

Remuneration Committee

The Remuneration Committee was established on 28th June 2005 and is chaired by an independent non-executive director with the responsibility of approving the remuneration policy for all directors and senior executives. The Remuneration Committee members include a majority of independent non-executive directors as follows:

Mr. Yiu Chi Wah* – *Committee Chairman*
Mr. Wong Kai Tung, Simon*
Mr. Fan Chi Fai, Paul*
Mr. Yang Ching Yau

* *Independent non-executive director*

Corporate Governance Practices and Procedures

The Group believes that enhancing good corporate governance demands long-term commitment from management and that the distinctive roles and functions of different committees are important in strengthening internal control.

During the six months ended 30th June 2005, the Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

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

Hong Kong, 12th August 2005