



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 nine-month period ended 30th September 2005 Third Quarterly 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 nine-month periods ended 30th September 2005, together with the comparative figures for the corresponding periods in 2004 were as follows:

	Note	For the three-month period ended 30th September 2005		For the nine-month period ended 30th September 2005	
		2004 HK\$'000	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000
Turnover	2	71,723	51,972	176,836	141,045
Cost of good sold		(59,163)	(41,129)	(143,433)	(105,988)
Gross profit		12,560	10,843	33,403	35,057
Other revenue and gains, net		5	42	333	408
Selling and marketing costs		(4,156)	(5,068)	(10,100)	(8,570)
Administrative expenses		(3,499)	(1,198)	(10,095)	(6,926)
Share option expense		(1,415)	-	(2,359)	-
Operating profit		3,495	4,619	11,182	19,969
Finance costs		(435)	(401)	(1,074)	(968)
Profit before income tax	3	3,060	4,218	10,108	19,001
Income tax expense	4	(313)	(1,590)	(1,285)	(5,340)
Profit for the nine-month period		2,747	2,628	8,823	13,661
Attributable to:					
Equity holders of the Company		442	997	1,940	5,988
Minority interests		2,305	1,631	6,883	7,673
		2,747	2,628	8,823	13,661
Earnings per share for profit attributable to the equity holders of the Company during the nine-month period					
- Basic (cents per share)	5	0.138	0.312	0.606	1.871
- Diluted (cents per share)	5	0.133	N/A	0.584	N/A
Dividends	6	-	-	-	512

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Movements of the Group's reserves were as follows:

	Share premium	Property revaluation reserve	Statutory reserves	Merger reserve	Employee share-based compensation 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	HK\$ '000
At 1st January 2005 (audited)	25,753	5,314	5,611	2,441	-	75	31,445	-	70,639
Profit for the nine-month period	-	-	-	-	-	-	1,940	-	1,940
Exchange difference	-	-	-	-	-	222	-	-	222
Appropriations	-	-	1,068	-	-	-	(1,068)	-	-
Share option benefits	-	-	-	-	2,359	-	-	-	2,359
At 30th September 2005 (unaudited)	<u>25,753</u>	<u>5,314</u>	<u>6,679</u>	<u>2,441</u>	<u>2,359</u>	<u>297</u>	<u>32,317</u>	<u>-</u>	<u>75,160</u>
At 1st January 2004 (audited)	25,753	5,259	4,857	2,441	-	125	22,625	2,912	63,972
Profit for the nine-month period	-	-	-	-	-	-	5,988	-	5,988
Dividends proposed	-	-	-	-	-	-	-	512	512
Payment of final dividend	-	-	-	-	-	-	-	(2,912)	(2,912)
Exchange differences	-	-	-	-	-	73	-	-	73
At 30th September 2004 (unaudited)	<u>25,753</u>	<u>5,259</u>	<u>4,857</u>	<u>2,441</u>	<u>-</u>	<u>198</u>	<u>28,613</u>	<u>512</u>	<u>67,633</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 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 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 nine-month period ended 30th September 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 nine-month period ended 30th September 2005 was the share options expense of approximately HK\$2,359,000 recognised in the income statement over the nine-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 nine-month period ended 30th September	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Manufacture and sale of loudspeaker systems	176,836	141,045
Other revenue		
Bank interest income	120	28
Sale of scrap materials	213	-
Others	-	380
	<hr/>	<hr/>
Total revenue	<u>177,169</u>	<u>141,453</u>

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 64% of the Group's turnover for the nine-month period ended 30th September 2005 (2004: 89%) arose from the Group's top five customers.

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

	For the nine-month period ended 30th September 2005						
	Hong Kong	Mainland China	Japan	U.S.A.	Europe	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*							
External sales	-	57,405	12,691	103,607	3,133	-	176,836
Inter-segment sales	-	2,428	-	-	-	(2,428)	-
Total turnover	-	59,833	12,691	103,607	3,133	(2,428)	176,836
Segment result	(4,999)	5,145	1,137	9,285	281	-	10,849
Unallocated income							333
Finance costs							(1,074)
Profit before taxation							10,108
Taxation							(1,285)
Profit after taxation and before minority interests							8,823
Minority interests							(6,883)
Profit attributable to shareholders							1,940
Depreciation and amortisation	-	5,861	-	-	-	-	5,861

* 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 nine-month period ended 30th September 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	-	68,898	12,855	52,909	6,383	-	141,045
Inter-segment sales	6,601	32,933	-	-	-	(39,534)	-
Total turnover	<u>6,601</u>	<u>101,831</u>	<u>12,855</u>	<u>52,909</u>	<u>6,383</u>	<u>(39,534)</u>	<u>141,045</u>
Segment result	<u>(2,095)</u>	<u>10,598</u>	<u>1,997</u>	<u>8,140</u>	<u>921</u>	<u>-</u>	19,561
Unallocated income							408
Finance costs							(968)
Profit before taxation							19,001
Taxation							(5,340)
Profit after taxation							13,661
Minority interests							(7,673)
Profit attributable to shareholders							<u>5,988</u>
Depreciation and amortisation	-	5,799	-	-	-	-	<u>5,799</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 nine-month periods ended 30th September 2004 and 2005.

4. INCOME TAX EXPENSE

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

	For the nine-month period ended 30th September	
	2005	2004
	HK\$'000	HK\$'000
Current taxation		
– Mainland China enterprise income tax	1,751	5,631
Deferred taxation	(466)	(291)
Taxation charges	<u>1,285</u>	<u>5,340</u>

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

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 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 nine-month period.

5. EARNINGS PER SHARE

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

	For the three-month period ended 30th September 2005		For the nine-month period ended 30th September 2005	
		2004		2004
Profit attributable to shareholders (in HK\$'000)	442	997	1,940	5,988
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)	0.138	0.312	0.606	1.871
Diluted earnings per share (cents)	0.133	N/A	0.584	N/A

6. DIVIDENDS

	For the three-month period ended 30th September 2005		For the nine-month period ended 30th September 2005	
	HK\$'000	2004 HK\$'000	HK\$'000	2004 HK\$'000
Interim, proposed, of Nil (2004: HK0.16 cent) per ordinary share	–	–	–	512

The Directors do not recommend the payment of an interim dividend during the nine-month period ended 30th September 2005.

7. 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 September 2005:

Name of grantees (relationships with the Group)	Date of grant	Date of acceptance	Exercise period	Subscription price HK\$	Number of shares under the option	Approximate % to the total 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 September 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 September 2015	0.345	2,000,000	0.625
Mr. Lin Chien Hung (Manager of product development)	28th June 2005	1st July 2005	1st July 2005 to 30th September 2015	0.345	2,000,000	0.625
Mr. Dennis Crosson (Manager of business development)	28th June 2005	1st July 2005	1st July 2005 to 30th September 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 83% of its total turnover. Although the Group was affected by the severe competition in Mainland China automobile market and forced the Group to reduce selling price for sale of automobile loudspeaker systems, the Group was still able to achieve approximately 19% growth in its automobile loudspeaker systems sales with its successful market diversification strategy.

Sale of home theatre loudspeaker systems brought in a total turnover of approximately HK\$31 million, representing a growth of approximately 63% compared with the corresponding period last year. The growth of sale in loudspeaker systems for home theatres was mainly attributable to the continuous product improvements.

Sales in overseas markets still achieve a significant growth of approximately 66%, while Mainland China market recorded a decrease of approximately 17% as compared with the corresponding period last year. Among the overseas markets sales, the U.S. sales order increased and achieved an impressive growth of approximately 96%.

A newly incorporated subsidiary, Detroit Sonavox Inc., was established in Detroit, the U.S. The new subsidiary in Detroit consists of trained staff 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 review period, the Group has been awarded Ford Q1 Preferred Quality Status (the "Ford Q1") by Ford Motor Company. The Ford Q1 recognition was based on an assessment of Sonavox's processes for controlling quality, ongoing monitoring of quality performance and continuous improvement efforts. In addition, the Group's extremely low defect rate, high quality of service delivery and quick response time were key factors. Of automobiles loudspeaker providers for Ford Motor Company, Sonavox was the first Chinese automobiles loudspeakers provider to achieve the Ford Q1.

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 during the nine-month period ended 30th September 2005.

FINANCIAL REVIEW

Turnover

During the nine-month period ended 30th September 2005, the Group's turnover increased by approximately 25% from approximately HK\$141 million to HK\$177 million. The increase in turnover was mainly due to the increase in sale of loudspeaker systems for the U.S. customers, accounted for approximately 59% of total turnover. During the review period, the Group actively pursued its overseas market presence while maintaining its leading position in automobile loudspeaker industry in Mainland China which accounted for approximately 32% of total turnover.

Gross profit and gross profit margin

Prompted by the severe market competition in automobile industry together with the continuous increase in crude oil prices, which continued to hit record high, both the cost of raw materials and other manufacturing overhead recorded substantial increase during the review period, together with the decrease in average selling price of automobile loudspeaker systems for overseas markets, squeezing the Group's gross profit margin to approximately 19% compared with 25% of that of the corresponding period last year. The Directors believed that the high raw material prices and manufacturing overhead will be absorbed by substantial increase in production volume in the coming period, such that the Group's profit margin will gradually 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 nine-month period ended 30th September 2005 increased by approximately 30% from approximately HK\$15,496,000 to approximately HK\$20,195,000. The increase of approximately HK\$4,699,000 was primarily due to the increase in sales commission paid to overseas agents and increase in average salary level of supportive staff and managerial staff in Mainland China during the nine-month period ended 30th September 2005.

Profit attributable to shareholders and earnings per share

The Group's profit attributable to shareholders for the nine-month period ended 30th September 2005 reached approximately HK\$1,940,000, representing a decrease of approximately 68%, as compared to approximately HK\$5,988,000 in the same corresponding period of 2004. The major reason for the significant drop in profit was attributable to the impact of newly adopted HKFRS 2 "Share-based Payment". As a result of this newly adopted accounting standard, share option expense of approximately HK\$2,359,000 (2004: Nil) was recognised in the book of the Company for the nine-month period ended 30th September 2005.

For the nine-month period ended 30th September 2005, the basic earnings per share of the Company was HK0.606 cent (2004: HK 1.871 cent), representing a drop of approximately 68% compared with the same corresponding period of 2004. Diluted earnings per share of the Company of HK 0.584 cent was presented as the grant of share options were dilutive at the end of September 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 nine-month period ended 30th September 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 September 2005, the Group had cash and bank deposits of approximately HK\$40,533,000 (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 September 2005 and 31st December 2004, the Group's current ratio was remained at 1.59 and gearing ratio was reduced from 0.62 to 0.59. As at 30th September 2005, the Group had total current liabilities amounted to approximately HK\$86 million included short-term bank loans of approximately HK\$19 million bearing interest at rates ranging from 5.20% to 5.58% per annum with repayment within a year.

The Group adopts conservative treasury policies in managing its cash and financial matters in Hong Kong and Mainland China. Currently, cash and bank deposits are placed in interest-bearing bank accounts in Hong Kong and Mainland China, denominated in Hong Kong dollars, Renminbi ("RMB"), U.S. dollars and 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 September 2005, the Group has capital commitment of approximately HK\$2,800,000 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 30th September 2005, the Group had outstanding commitments of approximately US\$3,921,000 and approximately US\$2,550,000 respectively for capital contribution to these two subsidiaries.

As at 30th September 2005, the Group did not have any significant contingent liabilities.

Material Acquisition/Disposals and Significant Investment

During the nine-month period ended 30th September 2005, the Group had no material acquisitions, disposals and investment. The Directors have recently explored to acquire suitable overseas businesses that are similar in nature to those of the Group where opportunities arise. The Group has no future plan for disposal of significant investments.

Exposure on Exchange Rate Fluctuation

Most of the Group's bank borrowings were denominated in RMB, whilst receipts and expenditures of the Group were denominated in RMB, Hong Kong dollars and U.S. dollars during the period. In view of the stability of these currencies, the Directors consider that the Group has no significant exposure on exchange rate fluctuation. The Group did not enter into derivative contracts to hedge its exposure to fluctuations in other foreign currencies as the associated cost outweighed the benefit of entering such derivative contracts.

Banking Facilities and Pledge of Assets

As at 30th September 2005, the Group had aggregate banking facilities of approximately HK\$56,580,000 (equivalent to RMB 60,000,000) overdrafts and loan financing. Unused facilities as at the same date amounted to approximately HK\$37,258,000 (equivalent to approximately RMB38,891,000). These facilities were secured by the Group's leasehold land and land use rights 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 September 2005 is set out below:

	30th September 2005	As at 31st December 2004
Management and administration	50	50
Sales and marketing	23	24
Manufacturing and operations	1,051	1,119
Research and development	52	51
Quality assurance and quality control	157	130
Finance and accounting	12	12
Total	<u>1,345</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 China, contribution to the Mandatory Provident Fund Scheme of Hong Kong and staff training programmes to eligible employees.

Total remuneration incurred for the nine-month period ended 30th September 2005 increased by approximately 26% from approximately HK\$15,230,000 to approximately HK\$19,245,000. The Executive Directors and independent non-executive Directors of the Company had received remuneration of approximately HK\$360,000 (2004: HK\$360,000) and approximately HK\$248,000 (2004: HK\$270,000) respectively 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. During the review period, the Group has provided 67 training programmes to its employees.

BUSINESS PROSPECTS

The current automobile market in Mainland China 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.

Germany automobile market is one of the potential overseas markets for the Group as its loudspeaker systems for automobiles have been approved by a renowned German automobile manufacturer during the review period. 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 all renowned worldwide automakers.

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 September 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 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 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 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.

Directors' and Chief Executive's Interest and Short Positions in the Shares and Debentures *(Continued)*

Save as disclosed in this paragraph, as at 30th September 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 September 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 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%

Substantial Shareholders (Continued)**(b) Long positions in the shares of equity derivatives of the Company**

Name	Capacity	Description of equity derivatives	Number of Shares	Percentage of 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) 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 and all 2,000,000 share option 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 and all 2,000,000 share option in which Mr. Yang Ching Yau is interested.

Save as disclosed above, as at 30th September 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 Interests 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 Rules 5.28 to 5.33 and 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 November 2005, the unaudited results and the unaudited financial position, major accounting and internal auditing issues of the Group for the nine-month period ended 30th September 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. Yang Ching Yau – *Committee Chairman*
Mr. Yiu Chi Wah*
Mr. Wong Kai Tung, Simon*

* *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 nine-month period ended 30th September 2005, the Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 and Rules 5.34 to 5.45 of the GEM Listing Rules.

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

Hong Kong, 14th November 2005