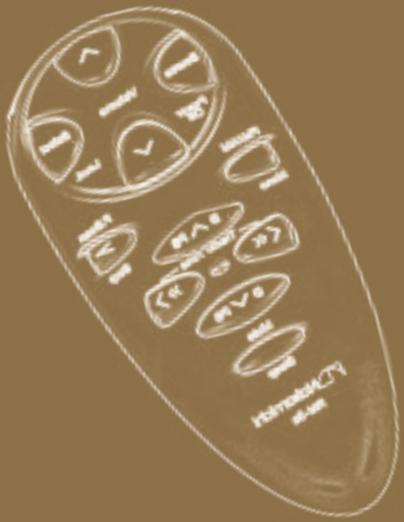


**THE GRANDE
HOLDINGS LIMITED**

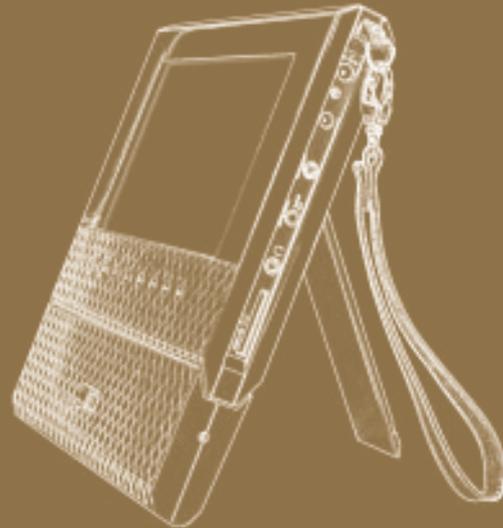




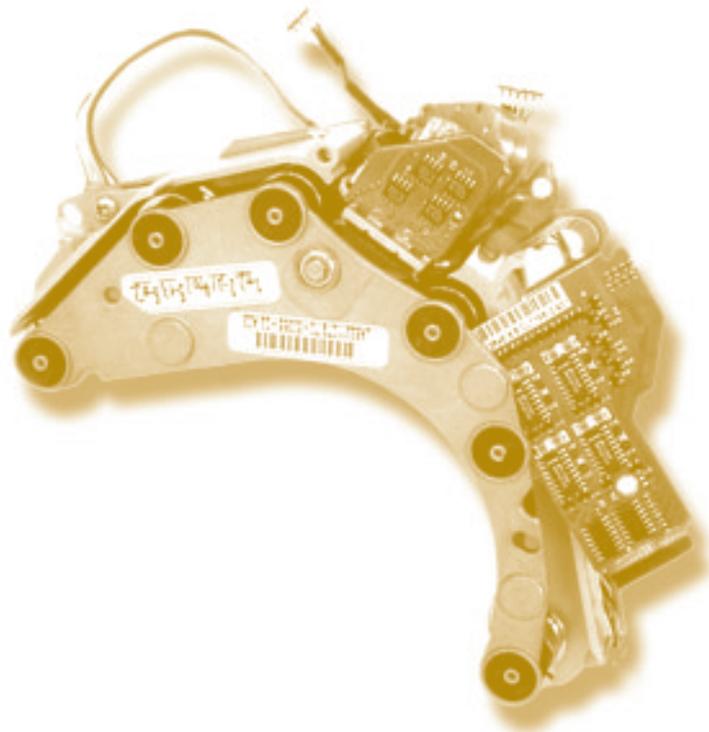
THE GRANDE HOLDINGS LIMITED



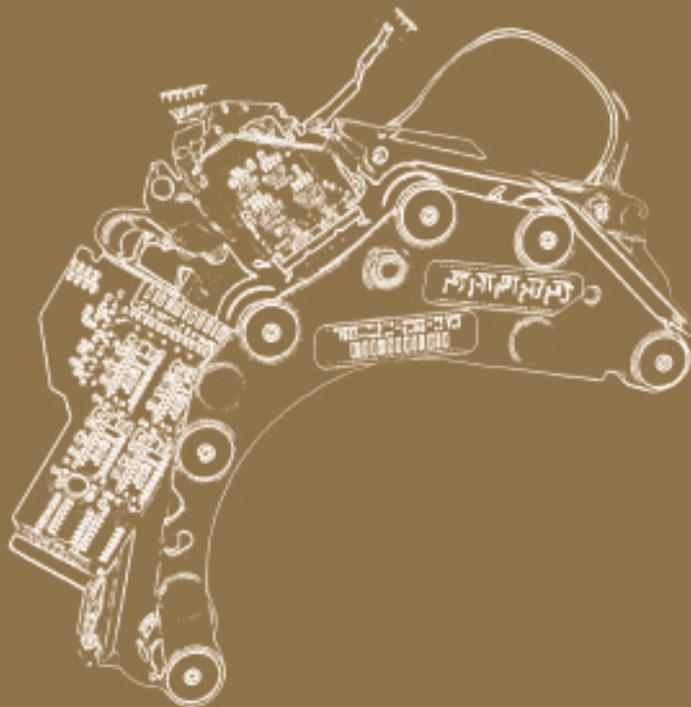
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corporate information



FOUNDING CHAIRMAN

Dr. Stanley Ho

BOARD OF DIRECTORS

Executive Directors

Mr. Christopher W. Ho

Chairman

Mr. Adrian C. C. Ma

Group Managing Director

Mrs. Christine L. S. Asprey

Mr. Michael A. B. Binney

Mr. C. F. Lam

Mr. Paul K. F. Law

Independent Non-executive Directors

Mr. Johnny W. H. Lau

Mr. Herbert H. K. Tsoi

Mr. Martin I. Wright

AUDITORS

Deloitte Touche Tohmatsu

COMPANY SECRETARY

Mr. Michael A. B. Binney

ASSISTANT COMPANY SECRETARY

Ms. Linda Longworth

International Managers Bermuda Ltd.

CORPORATE OFFICE IN HONG KONG

12th Floor, The Grande Building,

398 Kwun Tong Road,

Kowloon, Hong Kong

CORPORATE OFFICE IN SINGAPORE

146 Robinson Road #01-01

Singapore 068909

REGISTERED OFFICE

#2 Reid Street,

Hamilton HM 11, Bermuda

SOLICITORS

Baker & Mckenzie

SHARE REGISTRAR

Tengis Limited

Level 25, Three Pacific Place,

1 Queen's Road East,

Hong Kong

SHARE TRANSFER OFFICE

Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East,

Wanchai,

Hong Kong

PRINCIPAL BANKERS

ABN AMRO Bank N.V.

Bank of China (Hong Kong) Limited

The Bank of East Asia, Limited

China Construction Bank (Asia) Limited

Dah Sing Bank, Limited

DBS Bank Limited

Fubon Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking

Corporation Limited

HSH Nordbank AG

Indover Bank (Asia) Limited

Industrial and Commercial Bank of

China (Asia) Limited

KBC Bank N.V.

Wachovia Bank, N.V.

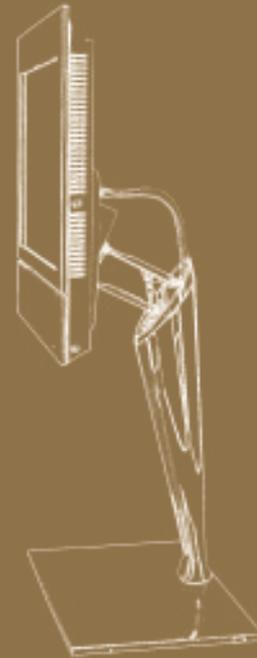


chairman's statement

I am pleased to announce that a consolidated profit attributable to shareholders of HK\$302 million was recorded for the year.

Your Board of Directors has recommended a final dividend for 2005 of HK12 cents per share which, together with the interim dividend of HK12 cents per share paid on 16 November 2005, results in a total distribution for the year of HK24 cents per share.

Our three global brands namely, Nakamichi, Akai and Sansui have continued to make inroads in the world's premier consumer markets, particularly the USA and The People's Republic of China ("PRC"). The Group's investment in advanced technology has increased in PRC such that the Group is now a dominant player in the flat panel display market, focusing on Plasmas and LCD TVs.



In December 2005, the Group completed its acquisition of a 37% interest in Emerson Radio Corp, a company listed on the American Stock Exchange. We have since then announced that we will increase our shareholding through purchase of stock on the exchange to exceed 50%. The Group considers that the Emerson and Scott Brands fit in with the Group's long term plan to continue to grow the Branded Distribution Division, enlarge its market share in consumer electronics market and enhance its technical capabilities.

The Group has also improved its liquidity and cash reserves in February 2006 by offering US\$50 million exchangeable bonds which were fully subscribed. The Group is considering undertaking further such exercises so as to move from short term bank financing to longer term financing in line with the increased focus on the Branded Distribution Division.

At the end of March 2006, the Group acquired a flat panel display production factory in Denmark. This will enable the Group to expand further in Europe, where otherwise the 14% import duty on non-European flat panel products would make it difficult to compete on a level footing.

The Group's long term plan is to strengthen its competitiveness in the Branded Distribution Division, enlarge its market share and enhance its capabilities in delivering high value-added products. In the coming year the Group will stay focused on adding value to its Brands and products.

I would like to extend my appreciation to the management and the staff of the Group for their dedication, loyalty and commitment. I would also like to thank our shareholders, customers, suppliers and business associates for their continuing support and confidence in the Group.

Christopher W. Ho
Chairman

Hong Kong, 8 May 2006

review of operations and prospects

For the year 2005, profit attributable to shareholders was HK\$302 million as compared to HK\$556 million for the year 2004.

The total turnover was HK\$6,038 million for the year compared to HK\$6,422 million for 2004. The gross profit from operating activities was HK\$817 million as compared to HK\$788 million for 2004.

The core business segments of the Group comprise of The Branded Distribution Group and The Electronics Manufacturing Services Group. The Branded Distribution Group will continue to become an increasingly significant contributor to sales and profits of the Group representing 61% of consolidated sales in 2005 as compared to 57% in 2004.

THE BRANDED DISTRIBUTION GROUP

The Branded Distribution Group's turnover for 2005 was HK\$3,707 million as compared to HK\$3,660 million for 2004. The Group phased out the sale of CRT TV's in 2005 so as to focus on the strong growth in flat panel display products such as Plasma and LCD TVs. Against this growth was a decrease in demand for home audio equipment in all market segments.

The Group manages the distribution and the licensing of three global Brands, namely Nakamichi, Akai and Sansui (collectively referred to as "Brands"). Both Akai and Sansui target the mass market with customers looking for mid to high end audio and video products. Nakamichi is the Group's premium brand concentrating on lifestyle systems that commands much higher market value. The Group has continued to invest in the Brands in 2005 by setting up additional Plasma and LCD production lines in The People's Republic of China ("PRC") and will continue to stay ahead of the technology curve through investment in research and development. This has resulted in the Group's ability to take full advantage of the growing demand for display products.

The Group covers the different flat panel technologies and caters to all sizes, with the aim to capture a bigger share of the market. The Group has a strong product line up and along with the current range of Plasma 42", 50" and 63", will also launch a 71" model in the second half of 2006. In addition, a 42" and 47" LCD will also join the LCD TV line up to complement the existing 20", 26"/27", 32" and 37" models.

In 2005, The Group experienced strong growth in the North American market, while the European market was sluggish. In early 2006, the Group acquired a European manufacturing facility for the production of flat panel display products so as to maximise the Brands' sales opportunities in Europe. This will also avoid having to pay the existing 14% duty on importing such products into Europe.

The Group's operating profit for 2005 was HK\$426 million as compared to HK\$411 million in 2004. The marginal profit increase was due to the Group's ongoing investment in proactive brand management programs to manage as well as license the Brands, expand the distribution network and improve the product selection.

The Group continues to expand in PRC so as to take advantage of its tremendous demand for products. The economy is expanding with an increasing affluent middle class having correspondingly higher disposable income. As PRC goes digital within 2007, flat panel products are also increasing in popularity. Significant investments have been made in advertising and marketing in PRC with the aim for the Brands to be among the pre-eminent international Brands in China for consumer electronic products. Sansui is now one of the most widely recognised brands in PRC.

review of operations and prospects

The Group will continue to invest in the infrastructure, product development and global marketing to realize the full potential of the Brands.

THE ELECTRONICS MANUFACTURING SERVICES GROUP

The Electronic Manufacturing Services Group (“EMS”) is comprised of two primary divisions, Lafe Technology Limited (“Lafe”) and Tomei Technologies Limited (“Tomei”). Lafe is a leading manufacturer of magnetic storage devices and is one of the top five manufacturers of recording heads and related assemblies for tape drives, hard disc drives and optical drives in the global storage market. Tomei manufactures consumer electronic products on behalf of major global brands whose products include DVD recorders, DVD rewritables, Hard Disc recorders and LCD projectors.

During 2005, the Group commenced the integration of Tomei’s facilities into the Branded Distribution Group and the phasing out of the production of its low margin products.

The EMS turnover for 2005 was HK\$2,331 million, as compared to HK\$2,762 million in 2004. The decrease was as a result of the phasing out of production of low margin products as noted above. Turnover was also affected by the phasing out and decrease in demand of the matured Digital Linear Tape Ferrite Head, and slower than expected sales of the new generation of Super DLT Magneto-Resistive Heads (“MR heads”).

The EMS Group suffered a net loss of HK\$54 million for 2005, as compared to an operating profit of HK\$52 million in 2004. Lafe incurred higher material content in new products and incurred additional costs in developing new products during the year. Tomei incurred losses as a result of the streamlining of its production facilities and the phasing out of production of low margin products.

In anticipation of the uncertain demand and pricing pressure on MR heads and complimentary products, Lafe is collaborating with customers in the development of more new product and increasing the value added content. We anticipate that an increasing portion of Lafe’s total revenue will be derived from sales of Linear Tape Open (“LTO”) Drive products as demand grows along with tape drives and autoloaders.

Adrian C. C. Ma
Group Managing Director

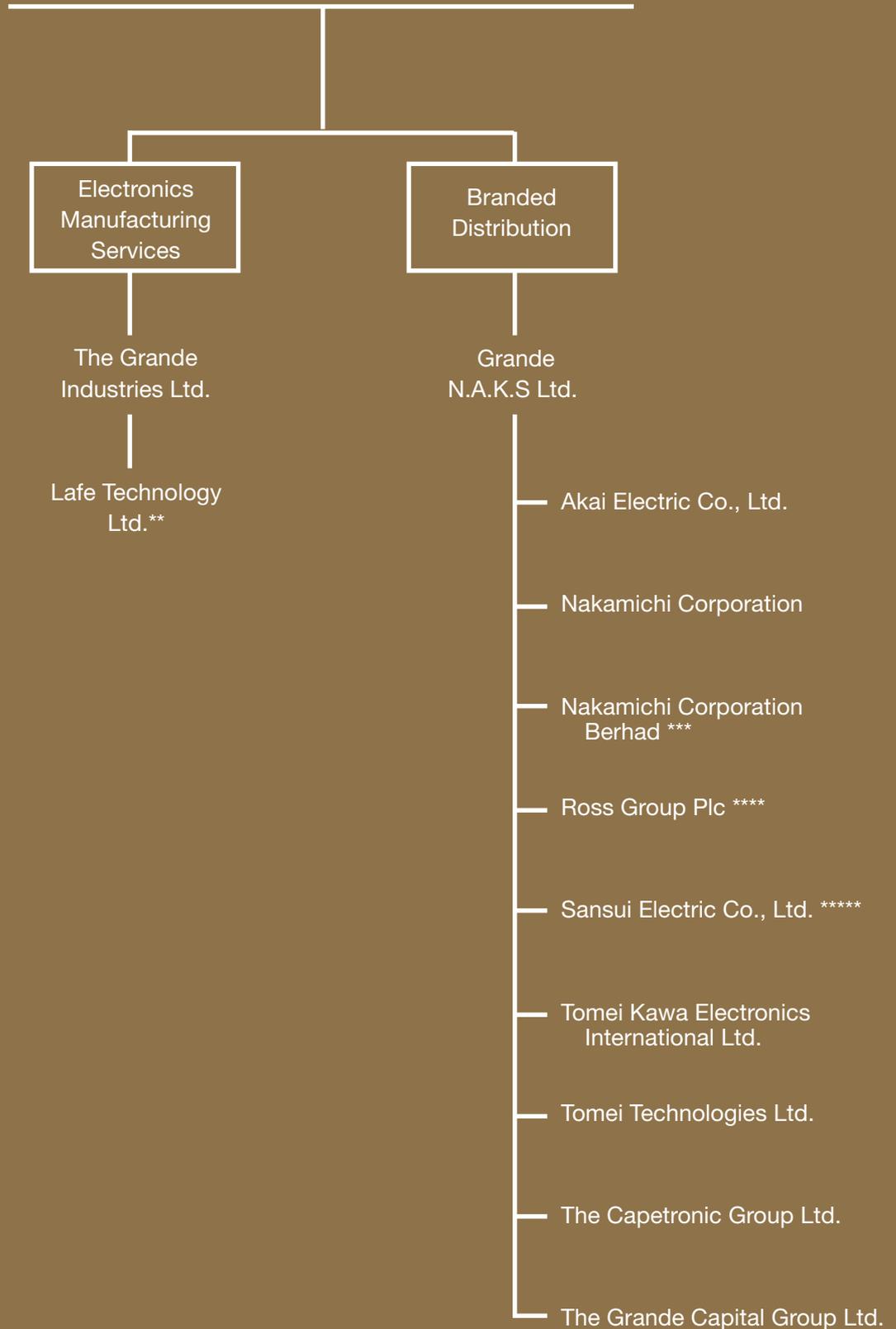
Hong Kong, 8 May 2006

corporate chart

- * Listed on the Stock Exchange of Hong Kong
- ** Listed on the Singapore Exchange Securities Trading Limited
- *** Listed on the Kuala Lumpur Stock Exchange
- **** Listed on the London Stock Exchange
- ***** Listed on the Tokyo Stock Exchange



THE GRANDE HOLDINGS LIMITED*



corporate governance report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2005.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and deviations from the Code Provisions in respect of Code Provisions A1.1, A.4.1, A.4.2 and E.1.2, details of which will be explained below.

The Company periodically reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises nine members, consisting of six executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:

Christopher W. Ho (*Chairman*)
Adrian C. C. Ma (*Group Managing Director/Chief Executive Officer*)
Christine L. S. Asprey
Michael A. B. Binney
C. F. Lam
Paul K. F. Law

Independent non-executive directors:

Herbert H. K. Tsoi
Johnny W. H. Lau
Martin I. Wright

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Directors’ Biographical Information” on page 27.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

corporate governance report

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors is subject to retirement by rotation pursuant to the Company's bye-laws.

Deviations from Code Provisions A.4.1 & A.4.2 (& reasons):-

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the President/Vice President), or if their number is not three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provisions A.4.1 and A.4.2 of the CG Code, a special resolution will be proposed at the 2006 annual general meeting of the Company to amend the Company's Bye-laws so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Training for Directors

There was no director newly appointed during the year ended 31 December 2005. In case there is any newly appointed director, the Company has intention to provide him/her with an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Arrangements will be made for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Deviation from Code Provision A.1.1 (& reason):-

Code Provision A.1.1 stipulates that the Company should hold at least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. As the Company did not announce its quarterly results hence did not hold quarterly meetings. In order to meet the Code Provision, the Company plans to hold at least four regular Board meetings in future.

Number of Meetings and Directors' Attendance

The Board met twice during the year ended 31 December 2005 for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005. The attendance rate at each meeting was 89% and 67% respectively.

The individual attendance record of each director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	Attendance/Number of Meetings Board
C. F. Lam	1/2
Christopher W. Ho	1/2
Paul K. F. Law	0/2
Adrian C. C. Ma	2/2
Christine L. S. Asprey	2/2
Herbert H. K. Tsoi	2/2
Michael A. B. Binney	2/2
Johnny W. H. Lau	2/2
Martin I. Wright	2/2

Name of Directors	Attendance/Number of Meetings Nomination Committee
Christopher W. Ho	1/1
Johnny W. H. Lau	1/1
Herbert H. K. Tsoi	1/1

Name of Directors	Attendance/Number of Meetings Remuneration Committee
Christopher W. Ho	1/1
Johnny W. H. Lau	1/1
Herbert H. K. Tsoi	1/1

Name of Directors	Attendance/Number of Meetings Audit Committee
Johnny W. H. Lau	2/2
Herbert H. K. Tsoi	2/2
Martin I. Wright	2/2

corporate governance report

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Chief Financial Officer, Qualified Accountant, and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Mr Christopher W. Ho and Mr Adrian C. C. Ma respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee as at 31 December 2005 is set out below:

Nomination Committee

Johnny W. H. Lau (*Chairman*)
Christopher W. Ho
Herbert H. K. Tsoi

Remuneration Committee

Herbert H. K. Tsoi (*Chairman*)
Christopher W. Ho
Johnny W. H. Lau

Audit Committee

Martin I. Wright (*Chairman*)
Herbert H. K. Tsoi
Johnny W. H. Lau

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee was established on 7 April 2005 and met once during the year ended 31 December 2005 to review and adopt the terms of reference. The Nomination Committee will review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Bye-laws, Mr Adrian C. C. Ma, Mr C. F. Lam and Mr Paul K. F. Law shall retire by rotation and being eligible, offer themselves for re-election at the 2006 annual general meeting.

corporate governance report

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the 2006 annual general meeting of the Company.

The Company's circular dated 12 May 2006 contains detailed information of the directors standing for re-election.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee was established on 7 April 2005 and met once during the year ended 31 December 2005 to review and adopt their terms of reference. The Remuneration Committee will review the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard and to discuss with the auditor the nature and the scope of the audit and reporting obligations before the audit commences;

- (c) To monitor the integrity of the financial statements of the Company as well as the annual report and accounts, half year report, quarterly report and to review significant financial reporting judgements contained in them including changes in accounting policies and practices, major judgemental areas, significant adjustments resulting from audit, going concern assumptions and qualifications, compliance with accounting standards and compliance with the Exchange Listing Rules and other legal requirement in relation to financial reporting;
- (d) To review and to discuss with the management the Company's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- (e) To ensure that there is co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing in the Company and to monitor and review the effectiveness of the internal audit function;
- (f) To review the Company's accounting policies;
- (g) To act as key representative body for overseeing the Company's relation with the external auditor.

The Audit Committee held two meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 31.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2005 amounted to HK\$6 million and HK\$80,000 respectively.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Company and of the Stock Exchange.

Deviation from Code Provision E.1.2 (& reason):-

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 27 June 2005 as he had other business engagements.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.grandeholdings.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

On behalf of the Board

Christopher W. Ho
Chairman

report of the directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates consisted of the design, development, manufacture and distribution of electronic and computer products and components along with trading of audio & video products and shares.

SEGMENTED INFORMATION

Details of turnover and segmented information are set out in notes 7 and 40 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 94.

An interim dividend of HK12 cents per ordinary share was paid on 16 November 2005. The directors recommend the payment of a final dividend of HK12 cents per share in respect of the year to the shareholders on the register of members on 22 June 2006.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	(Restated) 2005 HK\$ million	(Restated) 2004 HK\$ million	(Restated) 2003 HK\$ million	(Restated) 2002 HK\$ million	(Restated) 2001 HK\$ million
TURNOVER	<u>6,038</u>	<u>6,422</u>	<u>7,723</u>	<u>6,646</u>	<u>7,818</u>
PROFIT BEFORE TAX	<u>315</u>	<u>525</u>	<u>445</u>	<u>313</u>	<u>535</u>
Tax	<u>(13)</u>	<u>(10)</u>	<u>2</u>	<u>(3)</u>	<u>(4)</u>
PROFIT BEFORE MINORITY INTERESTS	<u>302</u>	<u>515</u>	<u>447</u>	<u>310</u>	<u>531</u>
Minority interests	<u>-</u>	<u>41</u>	<u>3</u>	<u>76</u>	<u>(71)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>302</u>	<u>556</u>	<u>450</u>	<u>386</u>	<u>460</u>

report of the directors

ASSETS AND LIABILITIES

	31 December				
	(Restated) 2005 HK\$ million	(Restated) 2004 HK\$ million	(Restated) 2003 HK\$ million	(Restated) 2002 HK\$ million	(Restated) 2001 HK\$ million
NON-CURRENT ASSETS	3,185	3,362	3,020	3,029	2,114
CURRENT ASSETS	3,635	3,095	3,493	2,646	3,602
TOTAL ASSETS	6,820	6,457	6,513	5,675	5,716
CURRENT LIABILITIES	3,113	2,981	2,740	2,245	2,819
NON-CURRENT LIABILITIES	423	306	394	916	211
TOTAL LIABILITIES	3,536	3,287	3,134	3,161	3,030
	3,284	3,170	3,379	2,514	2,686
SHARE CAPITAL AND RESERVES	2,826	2,658	2,803	1,894	1,898
MINORITY INTERESTS	458	512	576	620	788
	3,284	3,170	3,379	2,514	2,686

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 41 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE PREMIUM

Details of movements in the Company's share capital and share premium are set out in notes 32 and 33 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution to shareholders, calculated under the provisions of the Companies Act 1981 of Bermuda amounted to HK\$1,181 million.

The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's largest customer and five largest customers accounted for approximately 20% and 45%, respectively, of the Group's total turnover for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 14% and 30%, respectively, of the Group's total purchases for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 9 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Mrs. Christine L. S. Asprey
Mr. Michael A. B. Binney
Mr. Christopher W. Ho
Mr. C. F. Lam
Mr. Johnny W. H. Lau
Mr. Paul K. F. Law
Mr. Adrian C. C. Ma
Mr. Herbert H. K. Tsoi
Mr. Martin I. Wright

In accordance with clause 99 of the Bye - Laws of the Company, Mr. C. F. Lam, Mr. Paul K. F. Law and Mr. Adrian C. C. Ma will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The directors who are proposed for re-election do not have any unexpired service contract with the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

There were no unexpired service contracts which are not determinable by the Company within one year without compensation, other than statutory payments, in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The share option scheme adopted by the Company on 26 November 1990 had expired and there were no options outstanding as at the date of this report.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

report of the directors

DIRECTORS' INTERESTS IN SHARE CAPITAL

At the balance sheet date, the interests of the directors and chief executives of the Company in the shares and underlying shares of the Company or its associated corporations, if any, (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and HKSE were as follows:

Long positions in shares:

Directors	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company held	% of the issued share capital
Mr. Christopher W. Ho	Interest in corporation	293,339,822*	63.73%
Mr. C. F. Lam	Beneficial owner	303,600	0.07%
Mr. Adrian C. C. Ma	Beneficial owner	78,000	0.02%

* Mr. Christopher W. Ho had a 100% deemed beneficial interest in The Grande International Holdings Limited which owned 293,339,822 ordinary shares in the Company through its wholly owned subsidiary, Barrican Investments Corporation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons (other than the directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of substantial shareholders	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company held	% of the issued share capital
Mr. Gottfried Ludwig Prentice Jurick	Beneficial owner	28,324,022	6.15%
Mr. Lawrence Y. L. Ho	Corporate	24,986,000*	5.42%
J. P. Morgan Chase & Co.	Corporate	24,300,000	5.28%
Morgan Stanley	Corporate	23,126,000	5.03%

* Mr. Lawrence Y. L. Ho owned 24,986,000 ordinary shares in the Company through Grand Villa Assets Limited of which he has 100% control.

Save as disclosed above, as at the balance sheet date, none of the directors knew of any person (other than the directors or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Board of Directors				
Mr. Christopher W. Ho	55	Chairman	15	Manufacturing, international trading and corporate finance
Mr. Adrian C. C. Ma	61	Group Managing Director and Chief Executive Officer	22	Consumer electronics industry
Mrs. Christine L. S. Asprey	57	Group Executive Director	8	International marketing, market research and industrial affairs
Mr. Michael A. B. Binney	46	Group Executive Director, Company Secretary and Managing Director, Finance and Accounting Group	16	Finance, accounting and corporate restructuring
Mr. C. F. Lam	56	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Magnetic Media Division	31	Computer magnetic media industry
Mr. Paul K. F. Law	49	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Consumer Electronics Division	14	Consumer electronics industry
Independent Directors				
Mr. Herbert H. K. Tsoi	55	Non-executive Director	8	Solicitor
Mr. Johnny W. H. Lau	60	Non-executive Director	2	Manufacturing and consumer electronics industry
Mr. Martin I. Wright	44	Non-executive Director	2	Finance and accounting

The Company received the annual confirmation of year 2005 from each independent director and considers that they are independent.

Mr. Christopher W. Ho and Mrs. Christine L. S. Asprey are brother and sister.

report of the directors

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

Name	Age	Position held	Number of years of service	Business experience
Electronics Manufacturing Services Group				
Mr. K. T. Fok	45	Director – Engineering and Operations	23	Computer industry
Mr. T. S. Wong	39	Director – Operations	7	Manufacturing management
Mr. H. T. Tang	47	Director – Operations	11	Engineering and manufacturing management
Branded Distribution Group				
Mr. Wallace W. T. Tsui	40	Managing Director	1	Consumer electronics industry
Ms. Anissa Y. Y. Choi	51	Deputy Managing Director	25	Consumer electronics industry
Mr. Y. B. Kuang	39	Deputy Managing Director	1	Sales and marketing
Mr. Takeshi Nakamichi	56	Deputy Managing Director	34	Product research and development
Mr. H. C. Yeung	47	Deputy Managing Director	22	Consumer electronics industry
Mr. Christopher T. O. Chiang	49	Executive Director	7	Sales and marketing
Mr. Ata Malik	60	Executive Director	33	Sales and marketing
Treasury				
Mrs. Eleanor Crosthwaite	52	Managing Director	20	Treasury
Mr. Tony W. M. Lam	41	Executive Director – Group Treasury	14	Banking and treasury
Legal				
Ms. Ruby Y. K. Lee	44	Group Legal Counsel	12	Solicitor

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total assets of HK\$6,820 million which were financed by shareholders' funds of HK\$2,826 million, minority interests of HK\$458 million and total liabilities of HK\$3,536 million. The Group had a current ratio of approximately 1.17 as compared to that of approximately 1.04 at 31 December 2004.

As at 31 December 2005, the Group had HK\$679 million cash and bank balances. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings which were charged by banks at fixed and floating interest rates as detailed in note 28 to the financial statements. As at 31 December 2005, the Group had HK\$1,334 million short-term bank borrowings and HK\$838 million bank overdrafts.

The Group had inventories of approximately HK\$655 million as at 31 December 2005 representing a decrease of HK\$79 million compared to the previous year.

At the year end, the Group's gearing ratio was 63.23% which is calculated based on the Group's net borrowings of HK\$1,787 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to shareholders of the Company of HK\$2,826 million. The Group's net borrowings included advances from banks and a factoring company as consideration for factored receivables and discounted bills amounting to HK\$91 million in aggregate, which were recognised as liabilities on the balance sheet upon adoption of Hong Kong Accounting Standard 39. Were the net borrowings calculated under the old accounting standards, the amount would have been HK\$1,696 million and the Group's gearing ratio would then be 60.01%.

CHARGES ON GROUP ASSETS

At 31 December 2005, certain of the Group's assets with a total net book value of approximately HK\$1,371 million have been pledged to banks to secure banking facilities granted to the Group. Details of which are set out in note 38 to the financial statements.

TREASURY POLICIES

The Group's major borrowings are in US dollars, Renminbi and HK dollars. All borrowings are based on LIBOR or Hong Kong best lending rates. As the Group's revenues are mainly in US dollars, and major borrowings and payments are in either US dollars, Renminbi or HK dollars, there is a natural hedge mechanism in place and currency risk exposure is relatively low. The Group has a strong treasury management function and will continue to manage its currency and interest rate exposures.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2005 was approximately 11,000. The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

SIGNIFICANT INVESTMENTS

During the year, the Group acquired 37% of the issued share capital of Emerson Radio Corp., the transaction was completed in December 2005, further details are set out in note 16 to the financial statements.

The Group also during the year had increased its investment in Sansui Electric Co., Ltd under "Investments held for trading" from 17.72% at 31 December 2004 to 48.78% at 31 December 2005. Details of which are set out in note 25 to the financial statements.

report of the directors

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities of approximately HK\$23 million in respect of a guarantee for banking facilities granted to a former associate.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2005, which constitute connected transactions under the Listing Rules is disclosed in note 6 to the financial statements.

AUDIT COMMITTEE

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the financial statements of the Group for the year ended 31 December 2005.

The Audit Committee comprises three independent non-executive directors, namely Mr. Herbert H.K. Tsoi, Mr. Johnny W.H. Lau and Mr. Martin I. Wright.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 14 to 22 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Code during the year ended 31 December 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors up to the date of this report, the Company has sufficient public float as required under the Listing Rules.

AUDITORS

Messrs. Deloitte Touche Tohmatsu retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed auditors in the past three years.

On behalf of the Board

Christopher W. Ho
Chairman

Hong Kong
8 May 2006

To the shareholders of
The Grande Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of The Grande Holdings Limited (the “Company”) and its subsidiaries (the “Group”) from pages 33 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

report of the auditors

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS

As explained in note 17 to the consolidated financial statements, the Group's investment in the non-interest bearing convertible bonds issued by Sansui Electric Co., Ltd. ("SEC"), a company listed on the Tokyo Stock Exchange, was classified as investments available-for-sale and measured at cost as at 1 January 2005 and the option element to convert these bonds into ordinary shares was not separated and measured at fair value in accordance with Hong Kong Accounting Standard 39, "Financial Instruments: Recognition and Measurement". The non-interest bearing convertible bonds were converted into ordinary shares of SEC in October and November 2005 and resulted in an increase in ownership interest in SEC from 27.54% to 49.51%. The cost of the non-interest bearing convertible bonds was regarded as the cost on initial measurement of the additional ownership interest in SEC and was classified as an investments held for trading as described below. As explained more fully in notes 25 and 17 to the consolidated financial statements, the Group has accounted for 48.78% of its ownership interest in SEC as an investments held for trading and 0.73% of its ownership interest in SEC as investment available-for-sale. The Group has recognised a gain of HK\$64 million from changes in the fair value in the investment held for trading. In our opinion, the entire investment in SEC should be equity accounted in accordance with Hong Kong Accounting Standard 28, "Investments in Associates". Accordingly, the investment should be classified as an investment in an associate and initially recognised at cost with the carrying amount increased or decreased to recognise the Group's share of the profit or loss of SEC and the Group's proportionate share of changes in SEC's equity that have not been recognised in its profit or loss. It is not practicable to quantify the effect of the above item on the financial position of the Group as at 31 December 2005 and on the Group's profit for the year then ended as the directors of the Company have confirmed that SEC has not prepared consolidated financial statements in accordance with Hong Kong Financial Reporting Standards.

Except for the effects of accounting for the matter described above, in our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
8 May 2006

consolidated income statement

year ended 31 December 2005

	Notes	2005 HK\$ million	(Restated) 2004 HK\$ million
TURNOVER	7	6,038	6,422
Cost of sales		(5,221)	(5,634)
Gross profit		817	788
Other income		173	202
Distribution costs		(189)	(98)
Administrative expenses		(319)	(261)
Other operating expenses		(110)	(163)
Gain on disposal of subsidiaries		–	89
Share of loss of associates		(1)	–
Finance costs		(56)	(32)
PROFIT BEFORE TAX	8	315	525
Tax	10	(13)	(10)
PROFIT FOR THE YEAR		<u>302</u>	<u>515</u>
ATTRIBUTABLE TO:			
Shareholders of the Company		302	556
Minority interests		–	(41)
		<u>302</u>	<u>515</u>
DISTRIBUTION TO SHAREHOLDERS	11	<u>143</u>	<u>741</u>
		HK\$	HK\$
EARNINGS PER SHARE	12		
Basic and diluted		<u>0.66</u>	<u>1.21</u>

consolidated balance sheet

31 December 2005

	Notes	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
NON-CURRENT ASSETS			
Property, plant and equipment	13	691	723
Prepaid lease payments	14	252	258
Investment properties	15	54	58
Interests in associates	16	406	–
Investments available-for-sale	17	108	636
Deferred tax	18	4	9
Brands and trademarks	19	1,311	1,315
Other assets	20	90	99
Goodwill	21	269	268
Negative goodwill	21	–	(4)
		3,185	3,362
CURRENT ASSETS			
Inventories	23	655	734
Accounts, bills and other receivables	24	648	701
Amounts due from associates	6(a)	3	–
Prepayments, deposits and other assets		207	435
Tax recoverable		13	–
Investments held for trading	25	1,419	416
Derivative instruments	26	11	–
Pledged deposits with banks		9	20
Cash and bank balances		670	789
		3,635	3,095
CURRENT LIABILITIES			
Accounts and bills payables	27	459	669
Amounts due to associates	6(a)	12	7
Accrued liabilities and other payables		422	852
Tax liabilities		13	2
Trust receipt loans	38	802	562
Current portion of secured bank loans	28, 38	377	153
Current portion of unsecured bank loans	28	155	31
Obligations under finance leases	29, 38	–	9
Derivative instruments	26	35	–
Bank overdrafts		838	696
		3,113	2,981
NET CURRENT ASSETS		522	114
TOTAL ASSETS LESS CURRENT LIABILITIES		3,707	3,476

consolidated balance sheet

31 December 2005

	Notes	2005 HK\$ million	(Restated) 2004 HK\$ million
NON-CURRENT LIABILITIES			
Non-current portion of secured bank loans	28, 38	101	130
Non-current portion of unsecured bank loans	28	14	30
Convertible debenture	30	179	–
Provision for retirement and long service	31	58	60
Accrued liabilities and other payables		71	86
		423	306
NET ASSETS		3,284	3,170
CAPITAL AND RESERVES			
Share capital	32	46	46
Share premium	33	1,173	812
Reserves	34	1,607	1,800
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		2,826	2,658
MINORITY INTERESTS	34	458	512
TOTAL EQUITY		3,284	3,170

Christopher W. Ho
Chairman

Michael A. B. Binney
Director

consolidated statement of recognised income and expenses

year ended 31 december 2005

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
Deferred tax liability arising on change in fair value of investments available-for-sale	(6)	–
Change in fair value of investments available-for-sale	–	4
Net exchange differences on translation of the financial statements of overseas subsidiaries	<u>10</u>	<u>(4)</u>
Net income recognised directly in equity	4	–
Profit for the year	302	515
Realisation on disposal of investments available-for-sale	–	13
Realisation on disposal of subsidiaries	<u>–</u>	<u>20</u>
Total recognised income and expense for the year	<u>306</u>	<u>548</u>
Attributable to :		
Shareholders of the Company	307	596
Minority interests	<u>(1)</u>	<u>(48)</u>
	<u>306</u>	<u>548</u>
Effects of changes in accounting policies :		
Attributable to shareholders of the Company –		
Increase in share premium at the beginning of the year	361	–
Decrease in reserves at the beginning of the year	(298)	(98)
Decrease in retained earnings at the beginning of the year	<u>(59)</u>	<u>(50)</u>
	4	(148)
Attributable to minority interests	<u>–</u>	<u>36</u>
	<u>4</u>	<u>(112)</u>

consolidated cash flow statement

year ended 31 December 2005

	<u>2005</u>	(Restated)
	HK\$	<u>2004</u>
	million	HK\$
		million
OPERATING ACTIVITIES		
Profit before tax	315	525
Adjustments for:		
Interest income	(6)	(10)
Interest expenses	56	32
Share of loss of associates	1	–
Depreciation	94	115
Change in fair value of investments held for trading	(70)	(129)
Change in fair value of derivative instruments	1	–
Net increase in fair value of investment properties	(1)	(1)
Recognition of discount on increase investment in subsidiaries	(1)	–
Release of negative goodwill	–	(1)
Amortisation of goodwill	–	16
Amortisation of brands and trademarks	–	78
Amortisation of other assets	24	14
Amortisation of prepaid lease payments	6	6
Allowance for doubtful debts	3	10
Impairment loss recognised in respect of investments available-for-sale	6	12
Gain on disposal of subsidiaries	–	(89)
Gain on disposal of property, plant and equipment	–	(24)
Gain on disposal of investments available-for-sale	–	(10)
Gain on disposal of properties held for sale	–	(6)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	428	538
(Increase)/decrease in accounts, bills and other receivables	(20)	56
Decrease in inventories	79	3
Increase in investments held for trading	(341)	(167)
Decrease/(increase) in prepayments, deposits and other assets	228	(133)
(Increase)/decrease in amounts due from associates	(3)	92
Increase in amounts due to associates	5	–
Decrease in accounts and bills payables	(207)	(183)
(Decrease)/increase in accrued liabilities and other payables	(448)	459
	<hr/>	<hr/>
Cash (used in)/generated from operations	(279)	665
Interest paid	(54)	(32)
Hong Kong profits tax paid	(16)	(9)
Overseas profits tax paid	–	(2)
	<hr/>	<hr/>
Net cash (used in) /generated from operating activities	(349)	622

consolidated cash flow statement

year ended 31 December 2005

	Note	<u>2005</u> <u>HK\$</u> million	(Restated) <u>2004</u> HK\$ million
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		<u>(349)</u>	<u>622</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(62)	(55)
Purchase of associates		(203)	–
Purchase of additional interests in a subsidiary		(28)	(11)
Payments for other assets		(15)	(54)
Purchase of investments available-for-sale		–	(593)
Decrease in pledged deposits with banks		11	1
Interest received		6	10
Proceeds from disposal of property, plant and equipment		6	36
Proceeds from disposal of investments available-for-sale		–	38
Proceeds from disposal of properties held for sale		–	81
Proceeds from disposal of investment properties		–	3
Disposal of subsidiaries	35(a)	–	151
Net cash used in investing activities		<u>(285)</u>	<u>(393)</u>
FINANCING ACTIVITIES			
Dividend paid to minority interests		(24)	(4)
Dividends paid		(143)	(97)
Capital element of finance lease rental payments		(9)	(9)
New secured bank loans		342	–
New unsecured bank loans		125	73
Repayment of secured bank loans		(145)	(62)
Repayment of unsecured bank loans		(17)	(279)
Increase in trust receipt loans		244	72
Net cash generated from/(used in) financing activities		<u>373</u>	<u>(306)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(261)</u>	<u>(77)</u>
Cash and cash equivalents at beginning of year		93	169
Effect of foreign exchange rate changes, net		–	1
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>(168)</u>	<u>93</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		670	789
Bank overdrafts		(838)	(696)
		<u>(168)</u>	<u>93</u>

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's immediate holding company is Barrican Investments Corporation, a company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is The Grande International Holdings Limited, a company incorporated in the British Virgin Islands.

During the year, the Company acts as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 41 and 16 respectively.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 6 of the annual report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

HKAS 1	Presentation of financial statement
HKAS 17	Leases
HKAS 21	The effects of changes in foreign exchange rates
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 36	Impairment of assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKFRS 3	Business combinations

The impact of these changes in accounting policies is discussed below:

(a) Presentation of financial statement:

The adoption of HKAS 1 has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) Owner-occupied leasehold interest in land:

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation. In the current year, under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In restating the Group's results for prior years on the basis of the new and revised policies to comply with HKAS 17, the capital reserve (reflecting the revaluation surplus in prior years) and deferred tax liabilities of the Group as at 1 January 2004 have been reduced by HK\$96 million and HK\$20 million, respectively, in respect of the reversal of surplus on revaluation of leasehold land in prior years, the retained profits brought forward as at 1 January 2004 have been reduced by HK\$16 million, and the net profit of the Group for the year ended 31 December 2004 have been increased by HK\$4 million in respect of the adjustments for amortisation of land lease prepayment and deferred taxation. As a result of this change in accounting policy, the profit for the year has been increased by HK\$4 million.

(c) Business combinations:

The adoption of HKFRS 3, HKAS 21, HKAS 36 and HKAS 38 has resulted in changes in accounting policies in impairment of assets and goodwill.

Goodwill:

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$124 million has been transferred to the Group's retained earnings on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$36 million with a corresponding decrease in the cost of goodwill (note 21). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year, the profit for the year has been increased by HK\$16 million.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) Business combinations: (continued)

In the current year, the Group has also applied HKAS 21 “The effects of changes in foreign exchange rates” which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”):

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in the income statement in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005, of which negative goodwill of HK\$237 million was previously recorded in reserves and of HK\$4 million was previously presented as a deduction from assets. A corresponding adjustment to the Group’s retained earnings of HK\$241 million has been made. As a result of this change in accounting policy, no negative goodwill has been released to the income statement in the current year, the profit for the year has been reduced by HK\$1 million and increased by HK\$1 million in respect of the recognition of discount on the increased investment in subsidiaries.

Intangible assets:

In previous years, brands and trademarks were amortised over their estimated useful lives of 20 years. HKAS 38 requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of the brands and trademarks on 1 January 2005 and concluded that all brands and trademarks with a total carrying amount of HK\$1,315 million recognised under the predecessor Standard have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortising the brands and trademarks with indefinite useful lives from 1 January 2005 onwards. No amortisation has been charged in relation to the brands and trademarks with indefinite useful lives for the year ended 31 December 2005. As a result, the profit for the year has been increased by HK\$78 million.

Because the revised accounting policies have been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) Financial instruments:

The Group has not recognised the derivative financial instruments on the balance sheet prior to 1 January 2005. The Group has applied the relevant transitional provisions in HKAS 39. The adoption of HKAS 39 had no material effect on the results for the current accounting periods.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. By 31 December 2004, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as trading securities, non-trading securities or held-to-maturity investments as appropriate. Both trading securities and non-trading securities are measured at fair value. Unrealised gains or losses of trading securities are reported in the income statement for the period in which gains or losses arise. Unrealised gains or losses of non-trading securities are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as investments held for trading, investments available-for-sale, loans and receivables, or held-to-maturity financial assets. Investments held for trading and investments available-for-sale are carried at fair value, with changes in fair values recognised in the income statement and equity, respectively. Loans, receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Upon the adoption of the HKAS 39, trading securities and non-trading securities reported under SSAP 24 were classified as investments held for trading and investments available-for-sale, respectively. No adjustment to accumulated profit at 1 January 2005 was required.

(e) Investment properties:

The adoption of HKAS 40 has resulted in a change in accounting policy relating to investment properties. In prior years, the change in the fair value of investment properties was recognised in the investment property revaluation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement up to the amount previously charged. Following the adoption of HKAS 40, gains or losses arising from changes in fair value of investment properties are included in the income statement in the period in which they arise.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) Investment properties: (continued)

In restating the Group's results for prior periods on the basis of the adoption of HKAS 40, the amount held in the investment property revaluation reserve of HK\$2 million at 1 January 2004 has been transferred to the Group's retained earnings. As a result of restating the comparative figures for 2004, the profit for 2004 has been increased by HK\$1 million. The change in this accounting policy resulted in an increase in profit for the year of HK\$1 million.

(f) Derivatives:

The Group has not recognised the derivative financial instruments on the balance sheet prior to 1 January 2005. The Group has applied the relevant transitional provisions in accordance with HKAS 39. The adoption of HKAS 39 had no material effect on the results for the current accounting period.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in income statement for the period in which they arise. No adjustment to accumulated profit as at 31 December 2004 was required as HKAS 39 prescribes the recognition of derivatives at fair value in the balance sheet to take effect prospectively from 1 January 2005. The change in this accounting policy resulted in a reduction in profit for the year of HK\$1 million.

(g) Derecognition:

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to the transfers of financial assets from 1 January 2005 onwards. As a result, the Group's bills receivable discounted with full recourse amounting to HK\$2 million which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK\$91 million have been recognised and included under bank loans on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. This change in accounting policy has had no material effect on the results for the current year.

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(h) Investments in associates

HKAS 28 requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has significant influence over an investee.

Under the revised accounting policy, Advanced Microsensors Inc (“AMS”) previously classified as long-term investments, is now considered an associate of the Group by virtue of the Group’s investment in convertible preference shares, which when converted, would constitute 41% of the equity interest of AMS. As the Group’s investment in AMS has been fully impaired in the prior years, the change in treatment of AMS has no material effect on the financial position or results of the Group for the current or prior year.

Comparative figures have also been reclassified.

(i) Summary of the effects of the changes in accounting policies:

The effects of the changes in the accounting policies described above on the results for the current year is HK\$98 million (2004: HK\$5 million) and is further detailed in the individual notes above.

Analysis of increase in profit for the year by line items presented according to their function:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Other operating income	1	1
Administrative expenses	3	3
Other operating expenses	93	–
Tax	1	1
	<hr/> 98	<hr/> 5

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(i) Summary of the effects of the changes in accounting policies: (continued)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 at balance sheet items are summarised below:

	As at		(Restated)		(Restated)
	31 December		31 December		As at
	2004	Adjustments	2004	Adjustments	1 January
	HK\$	HK\$	HK\$	HK\$	2005
	million	million	million	million	million
Impact of HKAS 17:					
Property, plant and equipment	1,116	(393)	723	-	723
Prepaid lease payments (non-current)	-	258	258	-	258
Prepaid lease payments (current)	-	6	6	-	6
Deferred tax	(12)	21	9	-	9
Impact of HKFRS 3:					
Derecognition of negative goodwill	(4)	-	(4)	4	-
Total effects on assets and liabilities	<u>1,100</u>	<u>(108)</u>	<u>992</u>	<u>4</u>	<u>996</u>
Share premium	812	-	812	361	1,173
Investment revaluation reserve	16	(3)	13	-	13
Capital reserve	443	(96)	347	(298)	49
Retained profits	720	(45)	675	(59)	616
Minority interests	476	36	512	-	512
Total effects on equity	<u>2,467</u>	<u>(108)</u>	<u>2,359</u>	<u>4</u>	<u>2,363</u>

The financial effects of the application of the HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As at		(Restated)
	1 January		As at
	2004	Adjustments	1 January
	HK\$	HK\$	2004
	million	million	million
Investment revaluation reserve	(2)	(2)	(4)
Capital reserve	455	(96)	359
Retained profits	910	(50)	860
Minority interests	540	36	576
Total effects on equity	<u>1,903</u>	<u>(112)</u>	<u>1,791</u>

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(j) Standards amendments and interpretations issued but are not yet effective:

The Group has not early applied the following new and amended HKASs and HKFRSs (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that have been issued but are not yet effective.

#	HKAS 1 (Amendment)	Capital disclosures
*	HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
*	HKAS 21 (Amendment)	Net investment in a foreign operation
*	HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
*	HKAS 39 (Amendment)	The fair value option
*	HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
*	HKFRS 6	Exploration for and evaluation of mineral resources
#	HKFRS 7	Financial instruments: Disclosures
*	HK(IFRIC)-Int 4	Determining whether an arrangement contains a lease
*	HK(IFRIC)-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
o	HK(IFRIC)-Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment
#	Effective for annual periods beginning on or after 1 January 2007.	
*	Effective for annual periods beginning on or after 1 January 2006.	
o	Effective for annual periods beginning on or after 1 December 2005.	

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the Group’s results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amount or fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal, respectively. All intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- on the sale of goods, when the goods are delivered and titled, significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount;
- income from properties held for sale is recognised on the execution of a binding sales agreement;
- income from sale of investments held for trading is recognised on a trade-date basis and the execution of a binding contract; and
- royalties income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 previously recognised in reserves has been transferred to the Group's retained earnings on 1 January 2005.

Capitalised goodwill arising on acquisitions during the period from 1 January 2001 to 31 December 2004, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Goodwill (*continued*)

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

All negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, except for freehold land which is stated at cost less impairment loss and is not depreciated.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

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31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property, plant and equipment (*continued*)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life as set out below:

Freehold buildings outside Hong Kong	5 to 50 years
Long term leasehold buildings outside Hong Kong	45 years
Medium term leasehold buildings in Hong Kong	20 to 40 years
Medium term leasehold buildings outside Hong Kong	Over the lease terms
Plant, equipment and other assets	2 to 15 years
Moulds	2 to 5 years

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Upon the disposal of properties which have been revalued, the relevant portion of the revaluation reserve attributable to the properties realised is transferred directly to retained profits as a reserve movement.

An item of property, plant and equipment is derecognised upon disposal or when on future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in income statement for the period in which they arise.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments in equity securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. For investments in equity available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For investments available-for-sale, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

notes to financial statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity *(continued)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below :

– Financial liabilities:

Financial liabilities including bank borrowings, other borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments:

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative instruments

The Group has applied HKAS 39 “Financial Instruments : Recognition and Measurement” prospectively from 1 January 2005. Derivative instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in income statement as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through income statement. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Brands and trademarks

Prior to 1 January 2005, brands and trademarks are amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses.

On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives. The brands and trademarks with indefinite lives are not subject to amortisation from 1 January 2005 onwards, but are tested for impairment annually or more frequently when there are indications of impairment.

Gains or losses arising from derecognition of brands and trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Research and deferred development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to income statement in the period in which it is incurred.

Impairment

– Tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, however, the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

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31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment (*continued*)

- Intangible assets:

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation on non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the Group and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill, brands and trademarks

Determining whether goodwill, brands and trademarks are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, brands and trademarks have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill, brands and trademarks are HK\$269 million and HK\$1,311 million, respectively. Particulars of the impairment test are disclosed in note 22.

Income taxes

As at 31 December 2005, a deferred tax asset of HK\$17 million in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, borrowings, trade receivables, trade payables and convertible debenture. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts (note 26) are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (note 28). In relation to these fixed-rate borrowing, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps (note 26) to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

Price risk

The Group's investments available-for-sale and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management reviews the market situation and consults to the professionals to monitor the exposure periodically.

6. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties during the year ended 31 December 2005:

	2005	(Restated)
	HK\$	2004
	million	HK\$
		million
Associates:		
Purchases of materials	75	94
Trade and other receivables	3	-
Trade payables	(12)	(7)
	<u> </u>	<u> </u>

The fair value of the amount due from / (to) associates at 31 December 2005 was approximate to the corresponding carrying amount.

Related companies:

Settlement of security trading	225	-
Purchases of materials	4	-
Research and development cost charged by related company	4	-
Trade receivables	4	-
Other payables	(47)	(12)
	<u> </u>	<u> </u>

During the year, the settlement of an option arrangement of HK\$225 million from a third party to the Group had been made through a related company of which the Chairman of the Group has a deemed beneficial benefit. There is no gain or loss incurred to the Company of this arrangement. The amounts due from/to the related companies are unsecured, non-interest bearing and repayable on demand.

notes to financial statements

31 December 2005

6. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year was as follows:

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
Short-term employee benefits	<u>13</u>	<u>16</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Guarantee

The Chairman provided a personal guarantee amounting to HK\$50 million (2004: HK\$50 million) to the Company for a banking facility.

7. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts; royalty income and securities trading but excludes intra-group transactions.

An analysis of the Group's turnover by principal activity for the year is as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
By principal activity:		
Branded distribution	3,707	3,660
Electronics manufacturing services	<u>2,331</u>	<u>2,762</u>
	6,038	6,422

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005	(Restated)
	HK\$	2004
	million	HK\$
		million
Depreciation of property, plant and equipment	94	115
Operating lease rentals:		
Land and buildings	18	24
Interest on:		
Bank overdrafts and loans wholly repayable within five years	53	30
Bank loans wholly repayable beyond five years	3	2
Auditors' remuneration	7	6
Release of negative goodwill included in other operating income	-	(1)
Amortisation of goodwill included in other operating expenses	-	16
Amortisation of brands and trademarks included in other operating expenses	-	78
Amortisation of other assets included in other operating expenses	24	14
Amortisation of prepaid lease payments	6	6
Allowance for doubtful debts	3	10
Staff costs:		
Salaries and other benefits	181	162
Retirement benefit costs	2	6
Cost of inventories recognised as an expenses	4,816	5,214
Net foreign exchange (gain)/losses	(57)	35
Impairment loss recognised in respect of investments available-for-sale	6	12
Research and development expenditure	17	-
Gain on disposal of property, plant and equipment	-	(24)
Change in fair value of investments held for trading	(70)	(129)
Change in fair value of derivative instruments	1	-
Net increase in fair value of investment properties	(1)	(1)
Recognition of discount on increased investment in subsidiaries	(1)	-
Gain on disposal of investments available-for-sale	-	(10)
Gain on disposal of properties held for sale	-	(6)
Share of tax of associates included in share of loss of associates	(1)	-
Interest income	(6)	(10)

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9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	Fees HK\$ million	Basic salaries, housing allowances and other benefits HK\$ million	Discretionary bonuses HK\$ million	Total emoluments HK\$ million
2005				
Mr. Christopher W. Ho	-	1.3	-	1.3
Mr. Adrian C. C. Ma	-	1.8	-	1.8
Mrs. Christine L. S. Asprey	-	0.6	-	0.6
Mr. Michael A. B. Binney	-	1.1	-	1.1
Mr. C. F. Lam	-	2.0	-	2.0
Mr. Paul K. F. Law	-	1.0	-	1.0
Mr. Johnny W. H. Lau	0.1	-	-	0.1
Mr. Martin I. Wright	0.1	-	-	0.1
	<u>0.2</u>	<u>7.8</u>	<u>-</u>	<u>8.0</u>
2004				
Mr. Christopher W. Ho	-	1.3	-	1.3
Mr. Adrian C. C. Ma	-	1.8	-	1.8
Mrs. Christine L. S. Asprey	-	0.6	-	0.6
Mr. Michael A. B. Binney	-	1.1	-	1.1
Mr. C. F. Lam	-	2.0	1.5	3.5
Mr. Paul K. F. Law	-	1.0	0.2	1.2
Mr. Samuel K. Yuen (resigned on 16 February 2004)	-	0.2	-	0.2
Ms. Anita S. C. Chiu (resigned on 9 September 2004)	-	-	-	-
Mr. Johnny W. H. Lau (appointed on 9 September 2004)	0.1	-	-	0.1
Mr. Herbert H. K. Tsoi	0.1	-	-	0.1
Mr. Martin I. Wright (appointed on 16 September 2004)	0.1	-	-	0.1
	<u>0.3</u>	<u>8.0</u>	<u>1.7</u>	<u>10.0</u>

Mr. Herbert H. K. Tsoi waived the directors' emoluments of HK\$0.2 million for the year ended 31 December 2005.

The remuneration package of the directors are reviewed and approved by the Remuneration Committee. Details please see Corporate Governance Report on page 14.

For the 2004 annual report, the directors' remuneration was disclosed as a total of HK\$17 million which included allocation of overheads and expenses charged to group companies. The actual remuneration to directors in respect of emoluments amounted to HK\$10 million as stated above.

9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS (continued)

Employee Costs

During the year, the five highest paid individuals included two (2004: three) directors, detail of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Basic salaries, housing, other allowances and benefits in kind	5	5
Bonuses paid and payable	—	1
	<u>5</u>	<u>6</u>

The number of non-directors whose remuneration fell within the bands set out below is as follows:

HK\$	<u>2005</u> Number of non-directors	<u>2004</u> Number of non-directors
1,000,001 – 1,500,000	1	—
1,500,001 – 2,000,000	2	—
2,500,001 – 3,000,000	—	2
	<u>—</u>	<u>2</u>

The staff is entitled to receive a basic salary according to their contracts which are reviewed annually by the Company. In addition, staff is entitled to receive a discretionary bonus which is decided by the Company at its absolute discretion having regard to his/her performance.

notes to financial statements

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004:17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
The tax charge/(credit) comprises:		
Current year provision		
Hong Kong	4	3
Overseas	6	–
Under provision in prior year		
Hong Kong	4	7
Deferred tax (Note 18)		
Hong Kong	<u>(1)</u>	<u>–</u>
	<u>13</u>	<u>10</u>

Reconciliation between tax charge and profit before tax at applicable tax rates is as follows:

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
Profit before tax	<u>315</u>	<u>525</u>
Notional tax calculated at Hong Kong profits tax rate of 17.5%	55	92
Effect of different tax rates in overseas jurisdictions	(20)	1
Income and expenses not subject to tax	(77)	(124)
Unused tax losses not recognised	55	40
Utilisation of unrecognised tax losses	(3)	(6)
Under provision in prior year	4	7
Others	<u>(1)</u>	<u>–</u>
	<u>13</u>	<u>10</u>

11. DISTRIBUTION TO SHAREHOLDERS

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Interim dividend of HK12 cents (2004: HK11 cents) per share on 460.2 million shares	55	51
2004 final dividend of HK19 cents (2003: HK10 cents) per share on 460.2 million shares	88	46
2003 special dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the first section of the Tokyo Stock Exchange, for every two shares of the Company (the market value at close of business on distribution date of SEC was 38 Yen per share which equates to a special dividend of HK\$1.40 per share)	—	644
	<u>143</u>	<u>741</u>

A final dividend in respect of 2005 of HK12 cents per share on 460.2 million shares amounting to a total of HK\$55 million was approved by the Board after the balance sheet date, and not recognised as a liability as at 31 December 2005.

notes to financial statements

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12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data :

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
Earnings for the purposes of basic earnings per share:		
Profit attributable to shareholders of the Company (2004 : as previously reported)	302	551
Adjustment on adoption of HKAS 17	-	4
Adjustment on adoption of HKAS 40	-	1
	<hr/>	<hr/>
Earnings for the purposes of basic earnings per share (2004 : as restated)	302	556
Effect of dilutive potential ordinary shares:		
Interest on Convertible Debenture	1	-
	<hr/>	<hr/>
Earnings for the purposes of diluted earnings per share	303	556
	<hr/>	<hr/>
	<u>2005</u> Number of ordinary shares million	<u>2004</u> Number of ordinary shares million
Weighted average number of ordinary shares for the purposes of basic earnings per share	460.2	460.2
Effect of dilutive potential ordinary shares :		
Convertible Debenture	2.0	-
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	462.2	460.2
	<hr/>	<hr/>

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$ million	Plant, equipment and other assets HK\$ million	Moulds HK\$ million	Total HK\$ million
Cost or valuation:				
At 1 January 2004 –				
– as previously reported	947	1,171	231	2,349
– adjustment on adoption of HKAS 17	(472)	–	–	(472)
	<u>475</u>	<u>1,171</u>	<u>231</u>	<u>1,877</u>
– as restated	475	1,171	231	1,877
Foreign currency adjustment	–	5	–	5
Additions	1	40	14	55
Disposal of subsidiaries	(26)	(6)	–	(32)
Disposals	(29)	(243)	(37)	(309)
	<u>421</u>	<u>967</u>	<u>208</u>	<u>1,596</u>
At 31 December 2004 and 1 January 2005 (as restated)	421	967	208	1,596
Foreign currency adjustment	2	4	–	6
Additions	3	49	10	62
Disposals	(3)	(34)	(41)	(78)
	<u>423</u>	<u>986</u>	<u>177</u>	<u>1,586</u>
At 31 December 2005	423	986	177	1,586
Accumulated depreciation and impairment:				
At 1 January 2004 –				
– as previously reported	138	729	159	1,026
– adjustment on adoption of HKAS 17	(70)	–	–	(70)
	<u>68</u>	<u>729</u>	<u>159</u>	<u>956</u>
– as restated	68	729	159	956
Foreign currency adjustment	–	4	–	4
Provided during the year	15	75	25	115
Disposal of subsidiaries	(11)	(5)	–	(16)
Disposals	(7)	(145)	(34)	(186)
	<u>65</u>	<u>658</u>	<u>150</u>	<u>873</u>
At 31 December 2004 and 1 January 2005 (as restated)	65	658	150	873
Provided during the year	11	65	18	94
Disposals	(1)	(30)	(41)	(72)
	<u>75</u>	<u>693</u>	<u>127</u>	<u>895</u>
At 31 December 2005	75	693	127	895
Carrying values:				
At 31 December 2005	<u>348</u>	<u>293</u>	<u>50</u>	<u>691</u>
At 31 December 2004 (as restated)	<u>356</u>	<u>309</u>	<u>58</u>	<u>723</u>

No plant and machinery was held under financial leases at 31 December 2005. The net book value of plant and machinery held under finance leases at 31 December 2004 amounted to HK\$20 million.

notes to financial statements

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Buildings comprise:

	2005 HK\$ million	(Restated) 2004 HK\$ million
Long-term leasehold buildings outside Hong Kong:		
At cost	<u>60</u>	<u>61</u>
Medium-term leasehold buildings in Hong Kong:		
At cost	11	11
At 1993 professional valuation	<u>63</u>	<u>63</u>
	<u>74</u>	<u>74</u>
Medium-term leasehold buildings outside Hong Kong:		
At cost	231	228
At 1993 professional valuation	<u>58</u>	<u>58</u>
	<u>289</u>	<u>286</u>
Total cost or valuation	<u>423</u>	<u>421</u>

The valuation of medium-term leasehold buildings in Hong Kong of HK\$63 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 December 1993.

The valuation of medium-term leasehold buildings outside Hong Kong of HK\$58 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market value basis as at 31 January 1993.

Had the revalued assets been stated at their cost less accumulated depreciation, the carrying amount of buildings as at 31 December 2005 would be restated at HK\$301 million (2004: HK\$308 million).

Certain of the above properties and plant and machinery held by the Group were pledged to secure banking and finance lease facilities (note 38).

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14. PREPAID LEASE PAYMENTS

	<u>2005</u> <u>HK\$</u> million	(Restated) <u>2004</u> <u>HK\$</u> million
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	52	53
Leasehold land outside Hong Kong:		
Long-term lease	7	7
Medium-term lease	199	204
	<u>258</u>	<u>264</u>
Analysed for reporting purposes as:		
Current portion (included in prepayments, deposits and other assets)	6	6
Non-current portion	252	258
	<u>258</u>	<u>264</u>

15. INVESTMENT PROPERTIES

	<u>2005</u> <u>HK\$</u> million	<u>2004</u> <u>HK\$</u> million
At fair value		
At beginning of year	58	60
Foreign currency adjustment	(5)	-
Disposals	-	(3)
Net increase in fair value recognised in income statement	1	1
At end of year	<u>54</u>	<u>58</u>

notes to financial statements

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15. INVESTMENT PROPERTIES (continued)

The carrying amount of investment properties comprises land as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Land outside Hong Kong:		
Freehold	40	45
Medium-term leasehold	8	6
	<u>48</u>	<u>51</u>
Medium term leasehold land in Hong Kong	6	7
	<u>6</u>	<u>7</u>
Carrying amount	<u>54</u>	<u>58</u>

The investment properties outside Hong Kong of HK\$40 million was revalued by Allsop LLP, an independent professional valuator, by reference to market evidence of transaction prices for similar properties as at 31 December 2005. The valuation was carried out in accordance with the Practice Statements contained within the Appraisal and Valuation Standards 2003 prepared by the Royal Institution of Chartered Surveyors.

The investment properties in Hong Kong and Macau were valued at HK\$14 million as at 31 December 2005 by Dudley Surveyors Limited, an independent professional valuator, by reference to market evidence of transaction prices for similar properties. Dudley Surveyors Limited is a Chartered Surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

All the Group's investment properties are rented out under operating leases, to earn rentals or for capital appreciation purposes are measured using the fair value model.

16. INTERESTS IN ASSOCIATES

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
Cost of investment in associates	407	–
Share of post-acquisition losses	(1)	–
	<u>406</u>	<u>–</u>
Fair value of listed investments	<u>237</u>	<u>–</u>

16. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates are as follows:

Name	Notes	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Emerson Radio Corp.*	(a)	United States of America	37%	-	Engaged in the consumer electronics industry
Advanced Microsensors, Inc.	(b)	United States of America	41%	41%	Development and manufacturing of magnetic materials

* Listed on the American Stock Exchange of United States of America.

The above table lists the associates of the Group which in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

Notes:

- (a) On 25 August 2005, the Group entered into a sale and purchase agreement with Mr. Gottfried Ludwig Prentice Jurick ("GLPJ"), an independent third party of the Company and connected persons (as defined in the Listing Rules) of the Company, whereby the Group agreed to acquire from GLPJ the 10 million common shares in the capital of Emerson Radio Corp. ("ERC"), a company listed on the American Stock Exchange of The United States of America, representing approximately 37% of the entire issued shares capital of ERC. The consideration for the acquisition of ERC of US\$52 million was payable in cash of US\$26 million and the remaining balance was satisfied by a Convertible Debenture issued by the Company in the face amount of US\$26 million. The sale consideration was arrived with reference to the unaudited net asset value of ERC as at 30 June 2005 which amounted to US\$53.7 million together with a valuation of the trademarks of ERC of US\$59.8 million. This transaction was completed on 5 December 2005. Included in the cost of investment in associates is goodwill of HK\$36 million arising on the acquisition of ERC.
- (b) No share of the net assets and results of Advanced Microsensors, Inc. is recorded as the investee is considered an associate of the Group by virtue of the Group's investment in convertible preference shares, which when converted, would constitute 41% of the equity interest of the investee.

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16. INTERESTS IN ASSOCIATES (continued)

(c) The summarised financial information in respect of the Group's associates is set out below:

	<u>2005</u> <u>HK\$</u> million	(Restated) <u>2004</u> <u>HK\$</u> million
Total assets	799	49
Total liabilities	<u>(236)</u>	<u>(11)</u>
Net assets	<u>563</u>	<u>38</u>
Group's share of net assets of associates	<u>198</u>	<u>–</u>
Revenue	<u>241</u>	<u>121</u>
(Loss)/profit for the year	<u>(13)</u>	<u>9</u>
Group's share of result of associates for the year	<u>(1)</u>	<u>–</u>

17. INVESTMENTS AVAILABLE-FOR-SALE

	<u>2005</u> <u>HK\$</u> million	<u>2004</u> <u>HK\$</u> million
Listed investments, at market value outside Hong Kong	21	21
Unlisted investments, at cost less impairment	<u>87</u>	<u>615</u>
	<u>108</u>	<u>636</u>

Included in the unlisted investments at 31 December 2004 are non-interest bearing convertible bonds ("the Bonds") issued by SEC to the Group with a principal amount of 7.8 billion Yen (equivalent to HK\$593 million). The Bonds are unsecured, non-interest bearing and will mature in December 2007. The Group has the rights, at any time within a period of three years from the date of issue, to convert part or all of the principal amount of the Bonds outstanding into shares of SEC at the initial conversion price of 26 Yen per share. During the year 2005, the Bonds were converted to SEC shares classified as investments held for trading under HKAS 39 and are disclosed in note 25.

18. DEFERRED TAX

(a) Deferred tax assets and liabilities recognised:

The major components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation HK\$ million	Tax losses HK\$ million	Others HK\$ million	Total HK\$ million
At 1 January 2004 (as previously reported)	(29)	18	-	(11)
Adjustment on adoption of HKAS 17	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
At 1 January 2004 (as restated)	(9)	18	-	9
Credited/(charged) to income statement (Note 10)	<u>1</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
At 31 December 2004 and 1 January 2005	(8)	17	-	9
Charged to equity (Note 34)	-	-	(6)	(6)
Credited to income statement (Note 10)	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
At 31 December 2005	<u>(7)</u>	<u>17</u>	<u>(6)</u>	<u>4</u>

(b) Deferred tax assets not recognised:

The deferred tax assets have not been recognised in respect of the following items:

	2005 HK\$ million	2004 HK\$ million
Tax losses carried forward	7,361	9,301
Accelerated depreciation allowances	<u>278</u>	<u>263</u>
	<u>7,639</u>	<u>9,564</u>

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19. BRANDS AND TRADEMARKS

	<u>2005</u> <u>HK\$</u> million	<u>2004</u> <u>HK\$</u> million
Gross amount		
At beginning of year	1,543	1,541
Foreign currency adjustment	<u>(4)</u>	<u>2</u>
At end of year	<u>1,539</u>	<u>1,543</u>
Accumulated amortisation:		
At beginning of year	228	150
Provided for the year	<u>-</u>	<u>78</u>
At end of year	<u>228</u>	<u>228</u>
Carrying amount at end of year	<u>1,311</u>	<u>1,315</u>

Prior to 1 January 2005, brands and trademarks are amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses.

On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives. As a result, the brands and trademarks are not subject to amortisation from 1 January 2005 onwards, but are tested for impairment annually or more frequently when there are indications of impairment. Particulars of the impairment testing are disclosed in note 22.

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20. OTHER ASSETS

	<u>2005</u> <u>HK\$</u> <u>million</u>	<u>2004</u> <u>HK\$</u> <u>million</u>
Deferred development costs:		
At beginning of year	149	72
Additions	<u>15</u>	<u>77</u>
At end of year	<u>164</u>	149
Accumulated amortisation and impairment:		
At beginning of year	50	36
Provided for the year	<u>24</u>	<u>14</u>
At end of year	<u>74</u>	<u>50</u>
Carrying amount at end of year	<u>90</u>	<u>99</u>

The deferred development costs have definite useful lives and amortised on a straight-line basis over 3 to 5 years.

21. GOODWILL/(NEGATIVE GOODWILL)

	Goodwill		Negative goodwill	
	<u>2005</u> <u>HK\$</u> <u>million</u>	<u>2004</u> <u>HK\$</u> <u>million</u>	<u>2005</u> <u>HK\$</u> <u>million</u>	<u>2004</u> <u>HK\$</u> <u>million</u>
Gross amount				
At beginning of year	304	304	(6)	(5)
Acquisition of subsidiary	1	-	-	-
Additional interest in subsidiaries	-	-	-	(1)
Adjustment on adoption of HKFRS 3	<u>(36)</u>	<u>-</u>	<u>6</u>	<u>-</u>
At end of year	<u>269</u>	<u>304</u>	<u>-</u>	<u>(6)</u>
(Amortisation)/release				
At beginning of year	(36)	(20)	2	1
Provided for the year	-	(16)	-	1
Adjustment on adoption of HKFRS 3	<u>36</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
At end of year	<u>-</u>	<u>(36)</u>	<u>-</u>	<u>2</u>
Carrying amount at end of year	<u>269</u>	<u>268</u>	<u>-</u>	<u>(4)</u>

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21. GOODWILL/(NEGATIVE GOODWILL) (continued)

Prior to 1 January 2005, the goodwill/(negative goodwill) is (amortised)/released to the income statement on a straight-line basis of 20 years. According to HKFRS 3 and HKAS 36, the Group ceased amortisation of goodwill from 1 January 2005 and eliminated the accumulated amortisation of goodwill as at 31 December 2004 with the cost of goodwill, the carrying amount of negative goodwill was derecognised with a corresponding adjustment to the retained earnings at 1 January 2005.

Goodwill arising on acquisitions on or after 1 January 2005 is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Particulars of the impairment testing are disclosed in note 22.

From 1 January 2005 onwards, any discount on acquisition of a subsidiary is recognised immediately in the income statement.

22. IMPAIRMENT TESTING ON GOODWILL, BRANDS AND TRADEMARKS

Goodwill, brands and trademarks are allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Goodwill		Brands and trademarks	
	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Branded distribution	205	204	1,311	1,315
Electronics manufacturing services	64	64	-	-
	<u>269</u>	<u>268</u>	<u>1,311</u>	<u>1,315</u>

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management. A five-year period financial budget is used for testing the impairment of goodwill. The brands and trademarks are considered by management as having indefinite useful lives. A ten-year financial budget base on management's approved long-term plans of product development and business expansion is used for testing the impairment of these brands and trademarks.

The discount rate used for value-in-use calculations is in a range of 12% to 15%. Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates of 2% to 3% used are consistent with the forecasts included in industry reports.

23. INVENTORIES

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Raw materials	260	307
Work in progress	49	52
Finished goods	346	375
	<u>655</u>	<u>734</u>

24. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
0 – 3 months	511	645
3 – 6 months	31	16
Over 6 months	106	40
	<u>648</u>	<u>701</u>

The fair value of the Group's accounts, bills and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

25. INVESTMENTS HELD FOR TRADING

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Listed investments, at market value		
Hong Kong	20	–
Outside Hong Kong (Note)	1,398	415
Unlisted investments, at fair value	<u>1</u>	<u>1</u>
	<u>1,419</u>	<u>416</u>

Note:

Included in the listed investments is the Group's investment in SEC, with a carrying amount of HK\$1,398 million (2004: HK\$415 million).

In preparing the financial statements, the directors have given careful consideration to the accounting treatment of Sansui Electric Co., Ltd. ("SEC"), a company listed on the first section of the Tokyo Stock Exchange. SEC is a company principally engaged in the manufacture and sales of audio, visual and other electronics products.

At 31 December 2005, the Group's total investment in SEC represents a 49.51% holding of the ordinary shares of SEC (2004 : 18.66%). The Company records the shareholdings of 48.78% in SEC as investments held for trading in current assets with a carrying value of HK\$1,398 million and 0.73% as investments available-for-sale in non-current assets amounting to HK\$21 million.

In the view of the directors, SEC is not regarded as an associate of the Group as the Group does not intend to hold the shares in SEC for long term purposes. Furthermore, the Company is not in a position to exercise significant influence, as it does not have control or joint control over the financial and operating policy decisions of SEC.

In February 2006, the Group issued Exchangeable Bonds of US\$50 million. The holders of the Exchangeable Bonds have an exchange right for SEC shares. Assuming full exercise of the Exchangeable Bonds, the shareholding of the Group in SEC will be reduced by 10.76%. Since the market has strong interest in arranging another offering of the exchangeable bonds, the Company considers issuing additional similar exchangeable bonds in the near future. Assuming the exercise of further exchangeable bonds, the shareholding of the Group in SEC will then be further reduced. Accordingly, the directors consider that the investment in SEC, i.e. 48.78%, should therefore be accounted for as investments held for trading under HKAS 39 "Financial instruments : recognition and measurement", and is therefore carried at fair value with valuation movements dealt with in the income statement for the year.

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26. DERIVATIVE INSTRUMENTS

	<u>2005</u>		<u>2004</u>	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
Held for trading or not qualifying as hedges:				
Derivatives embedded in non-derivative host contract	-	(23)	-	-
Forward foreign exchange contracts	-	(12)	-	-
Interest rate swaps	11	-	-	-
	<u>11</u>	<u>(35)</u>	<u>-</u>	<u>-</u>
Classified as current assets/(liabilities)	<u>11</u>	<u>(35)</u>	<u>-</u>	<u>-</u>

Interest rate swaps mature at various dates up to 9 July 2007 with variable interest rates.

2004 comparative figures are not provided as HKAS 39 “Financial instruments: Recognition and measurement” prescribes the recognition of derivatives at fair value in the balance sheet to take effect prospectively from 1 January 2005.

27. ACCOUNTS AND BILLS PAYABLES

The aged analysis of accounts and bills payables is as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
0 – 3 months	399	624
3 – 6 months	12	12
Over 6 months	48	33
	<u>459</u>	<u>669</u>

The fair value of the Group’s accounts and bills payables at 31 December 2005 was approximate to the corresponding carrying amount.

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28. BANK LOANS

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Secured bank loans wholly repayable:		
Within one year	377	153
In the second year	29	49
In the third to fifth years, inclusive	34	49
Beyond five years	38	32
	<hr/>	<hr/>
	478	283
Portion classified as current liabilities	(377)	(153)
	<hr/>	<hr/>
Portion classified as non-current liabilities	101	130
	<hr/>	<hr/>
Unsecured bank loans wholly repayable:		
Within one year	155	31
In the second year	14	17
In the third to fifth years, inclusive	-	13
	<hr/>	<hr/>
	169	61
Portion classified as current liabilities	(155)	(31)
	<hr/>	<hr/>
Portion classified as non-current liabilities	14	30
	<hr/>	<hr/>

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28. BANK LOANS (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Hong Kong Dollar	93	97
Renminbi Yuan	111	52
United States Dollar	413	159
Great British Pound	28	33
Others	2	3
	<u>647</u>	<u>344</u>

As at the balance sheet date, 17% (2004: nil) of the Group's total borrowings were with interest rates fixed to maturity, all such borrowings will mature within one year.

The ranges of effective interest rates on the Group's borrowings at the balance sheet date were as follows:

	<u>2005</u>	<u>2004</u>
Effective interest rate:		
Fixed-rate borrowings	5.22% to 5.69%	Nil
Variable-rate borrowings	5.75% to 7.75%	1.43% to 5.84%

The Group's net increase in bank loans during the year was approximately HK\$303 million, in which HK\$203 million was used to finance the acquisition of ERC, the remaining balance was used as additional working capital for its business of the manufacture of consumer electronic audio and video products.

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Amounts payable under finance leases:				
Within one year	-	9	-	9
Less: future finance charges	-	-	-	-
	<u>-</u>	<u>9</u>	<u>-</u>	<u>9</u>
Present value of lease obligations classified as current liabilities	-	9	-	9

30. CONVERTIBLE DEBENTURE

On 5 December 2005, the Company issued a principle amount of US\$26 million (equivalent to HK\$202 million) Convertible Debenture (“Convertible Debenture”) at par value as part of the purchase consideration of ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company at any time between the date of issue of the Convertible Debenture and the settlement date on 5 December 2008 at a conversion price of HK\$7.16 per ordinary share of the Company, provided that such part to be converted shall not be less than Hong Kong dollar equivalent to US\$5 million and shall be in a multiple of US\$1 million. If the Convertible Debenture has not been converted, it will be redeemed on 5 December 2008 at par, provided that the Company shall have the right, at any time by a 30-day prior written notice to debentureholder, to early redeem the whole or part of the outstanding principal amount of this Convertible Debenture. No interest for the period from the issue date to the day prior to the first anniversary of the issue date and 3% per annum for the period from the first anniversary of the issue date on 5 December 2005 until the maturity date on 5 December 2008.

The Convertible Debenture contain two components, conversion option and equity elements. Upon the application of HKAS 32: “Financial instruments: Disclosure and presentation,” the Convertible Debenture was split between the liability and derivative instrument, on a retrospective basis. The derivative instrument element is presented in note 26.

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Liability component at 1 January	–	–
Issue of Convertible Debenture	<u>179</u>	<u>–</u>
Liability component at 31 December	<u>179</u>	<u>–</u>

The fair value of the liability component of the Convertible Debenture at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date.

31. PROVISION FOR RETIREMENT AND LONG SERVICE

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
At beginning of year	60	93
Foreign currency adjustment	(1)	–
Additional provision	2	5
Utilisation of provision	<u>(3)</u>	<u>(38)</u>
At end of year	<u>58</u>	<u>60</u>

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32. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each million	Amount HK\$ million
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>1,000</u>	<u>100</u>
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>460</u>	<u>46</u>

On 5 December 2005, the Company issued a principal amount of US\$26 million Convertible Debenture due 5 December 2008 (note 30) as part of the purchase consideration of ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company. Based on the conversion price of HK\$7.16 per share, a total number of 28,324,022 conversion shares will be allotted and issued upon full exercise of the conversion rights attached to the Convertible Debenture which represents approximately 6.15% of the then issued share capital of the Company and approximately 5.80% of the then enlarged issued share capital of the Company.

No conversion rights were exercised during the year ended 31 December 2005.

33. SHARE PREMIUM

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
At 1 January (as previously reported)	812	812
Effects of changes in accounting policies (note 2)	<u>361</u>	<u>—</u>
At 31 December	<u>1,173</u>	<u>812</u>

34. RESERVES AND MINORITY INTERESTS

	Contributed reserve HK\$ million	Investment revaluation reserve HK\$ million	Capital reserve HK\$ million	Exchange fluctuation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Minority interests HK\$ million
At 1 January 2004 -							
As previously reported	961	(2)	455	(231)	910	2,093	540
Effects of changes in accounting policies (note 2)	-	(2)	(96)	-	(50)	(148)	36
As restated	961	(4)	359	(231)	860	1,945	576
Increased investment in subsidiaries	-	-	-	-	-	-	(12)
Arising on consolidation of overseas subsidiaries	-	-	-	-	-	-	(4)
Surplus on revaluation of investments available-for-sale	-	4	-	-	-	4	-
Released on disposal of investments available-for-sale	-	13	-	-	-	13	-
Released on disposal of subsidiaries	-	-	(12)	35	-	23	(3)
Profit for the year	-	-	-	-	556	556	(41)
Dividend paid to minority interests	-	-	-	-	-	-	(4)
Distribution to shareholders	-	-	-	-	(741)	(741)	-
At 31 December 2004 and 1 January 2005	961	13	347	(196)	675	1,800	512
Effects of changes in accounting policies (note 2)	-	-	(298)	-	(59)	(357)	-
At 1 January 2005 (as restated)	961	13	49	(196)	616	1,443	512
Increased investment in subsidiaries	-	-	-	-	-	-	(29)
Deferred tax charged to equity	-	(6)	-	-	-	(6)	-
Arising on consolidation of overseas subsidiaries	-	-	-	11	-	11	(1)
Profit for the year	-	-	-	-	302	302	-
Dividend paid to minority interests	-	-	-	-	-	-	(24)
Distribution to shareholders	-	-	-	-	(143)	(143)	-
At 31 December 2005	961	7	49#	(185)	775	1,607	458

The balance of capital reserve represents property revaluation reserve.

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35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

Summary of the effects on disposal of subsidiaries

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Net assets disposed of:		
Property, plant and equipment	-	16
Cash and bank balances	-	2
Investments held for trading	-	9
Properties held for sale	-	17
Prepayments, deposits and other assets	-	1
Minority interests	-	(3)
	-	42
Gain on disposal of subsidiaries	-	89
	-	131
Represented by:		
Cash consideration received	-	153
Accounts, bills and other receivables	-	1
Release of reserves	-	(23)
	-	131

The subsidiaries disposed of during the year 2004 contributed HK\$16 million to the Group's turnover, and utilised HK\$8 million of the Group's profit from operations.

The analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Cash consideration received	-	153
Cash and bank balances of disposed subsidiaries	-	(2)
	-	151

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

b) Major non-cash transactions

(i) Purchase of subsidiary :

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
Net assets acquired :		
Investments available-for-sale	70	—
	<u>70</u>	<u>—</u>
Goodwill arising on acquisition	1	—
	<u>71</u>	<u>—</u>
Represented by :		
Discharged through accounts, bills and other receivables	71	—
	<u>71</u>	<u>—</u>

The subsidiary acquired during the year had no material effect on profit and cashflow of the Group.

- (ii) During the year 2005, purchase consideration for associates of HK\$202 million was satisfied by the same principle amount of Convertible Debenture issued by the Company.
- (iii) The 2003 special dividend of HK\$644 million was dealt with by way of a distribution in specie of marketable securities during the year 2004.

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36. CONTINGENT LIABILITIES

	<u>2005</u> <u>HK\$</u> <u>million</u>	<u>2004</u> <u>HK\$</u> <u>million</u>
Bills discounted with recourse	<u>-</u>	<u>2</u>
Guarantee of trade finance banking facilities granted to a former associate	<u>23</u>	<u>31</u>

During 2005, the Hong Kong Inland Revenue Department (“HKIRD”) initiated field audits on certain subsidiaries of the Group for the financial years from 1998 to 2005 for the purpose of ascertaining the Hong Kong tax liabilities of these subsidiaries. The Group has appointed tax advisers in Hong Kong to advise them with respect to the field audits. The HKIRD has granted the Group time to collate information requested by the HKIRD and in the meantime has issued protective assessments to which the Group has filed objections. In addition, additional assessments were issued to certain subsidiaries for which Tax Reserve Certificates in the sum of HK\$11 million have been purchased by the Group. The Group’s tax advisers had advised that at this preliminary stage it is premature and impractical to determine whether the field audits will result in any additional tax liabilities for the subsidiaries. In the circumstances, the Directors are of the opinion that the Group’s Hong Kong tax provision is sufficient and it is not feasible and they are not able at this time to make any judgement or determination as to whether the field audit will result in any additional tax liability. Accordingly no provision for any liability that may result has been made in the financial statements.

37. COMMITMENTS

	<u>2005</u> HK\$ million	<u>2004</u> HK\$ million
(a) Capital commitments:		
Contracted for	1	–
Authorised, but not contracted for	<u>37</u>	<u>–</u>
	<u>38</u>	<u>–</u>
(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	12	28
Later than one year and not later than five years	<u>4</u>	<u>18</u>
	<u>16</u>	<u>46</u>
<p>Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years (2004: 3 years) and rentals are fixed for an average of 3 years (2004: 3 years).</p>		
(c) At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:		
Investment properties:		
Not later than one year	1	2
Later than one year and not later than five years	<u>4</u>	<u>1</u>
	<u>5</u>	<u>3</u>
<p>Property rental income earned during the year was HK\$3 million (2004: HK\$3 million). The properties are expected to generate rental yields of 4.8% (2004: 5.4%) on an ongoing basis. All of the properties held have committed tenants for the next 2 years.</p>		
(d) The group had commitments under the following foreign exchange forward contracts at fixed exchange rates for the purpose of hedging against accounts receivables and accounts payables:		
To sell approximately RMB524 million in 2004	<u>–</u>	<u>493</u>
To purchase approximately JPY558 million in 2004	<u>–</u>	<u>42</u>

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38. BANKING AND FINANCE LEASE FACILITIES

Certain banking and finance lease facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

	<u>2005</u> HK\$ million	(Restated) <u>2004</u> HK\$ million
(a) Legal charges over brands and trademarks	581	582
(b) Legal charges over medium-term prepaid lease and buildings in Hong Kong	79	81
(c) Legal charges over investment property	40	45
(d) Legal charges over plant and machinery	–	20
(e) Pledge of medium-term prepaid lease and buildings outside Hong Kong	103	107
(f) Pledge of marketable securities	559	–
(g) Pledge of bank deposits	9	20
	<hr/> 1,371 <hr/>	<hr/> 855 <hr/>

39. PROVIDENT FUND SCHEMES

From 1 December 2000 onwards, all the staff of the Group in Hong Kong are offered the opportunity to join the Mandatory Provident Fund Scheme (the “MPF Scheme”), which is introduced by the Hong Kong Special Administrative Region. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 per employee and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of each employee’s monthly salaries up to a maximum of HK\$1,000. The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contribution under the pension scheme.

The Group also operates various retirement benefit schemes for qualifying employees of its overseas subsidiaries, including subsidiaries in the United Kingdom, Singapore and Malaysia. The assets of the retirement benefit schemes are held separately from those of the Group, in funds under control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the schemes, which contribution is matched by employees.

40. SEGMENT REPORTING

(a) Business segments

The Group comprises of:

Groups

(i) Branded distribution

(ii) Electronics manufacturing services

Principal activities

Trading of audio & video products, licensing business and securities trading

Manufacture and trading of electronic and computer products

	Branded distribution HK\$ million	Electronics manufacturing services HK\$ million	Inter-segment elimination HK\$ million	Unallocated HK\$ million	Consolidated HK\$ million
2005					
Turnover:					
Sales of goods to external customers	3,120	2,331	-		5,451
Royalty income from external customers	386	-	-		386
Securities trading	201	-	-		201
Inter-segment sales	20	123	(143)		-
Total	<u>3,727</u>	<u>2,454</u>	<u>(143)</u>		<u>6,038</u>
Result:					
Segment results	426	(54)	-		372
Unallocated corporate expenses					(7)
					<u>365</u>
(Loss)/gain on disposal of property, plant and equipment	-	(1)	-	1	-
Net increase in fair value of investment properties	1	-	-	-	1
Share of loss of associates	(1)	-	-	-	(1)
Interest income					6
Interest expenses					(56)
Taxation					(13)
Profit for the year					<u>302</u>
Assets:					
Segment assets	5,128	3,224	(2,086)	148	6,414
Interests in associates	406	-	-	-	406
	<u>5,534</u>	<u>3,224</u>	<u>(2,086)</u>	<u>148</u>	<u>6,820</u>
Liabilities:					
Segment liabilities	3,624	1,779	(2,212)	345	3,536
Other information:					
Depreciation and amortisation	45	72		7	124
Capital expenditure	49	25		3	77
Allowance of doubtful debts	-	3		-	3

Royalty Income

The gross royalty income consists of license income of HK\$360 million earned from an independent third party, before expenses. During the year, the Group granted the independent third party the rights to use the Group's brands and trademarks under certain product categories in certain countries for sales made in 2005.

Security Trading

Security trading includes the gain on derivative securities investments amounting to HK\$201 million, before expenses, earned from an independent third party arising from an option in the shares of SEC which was exercised on 30 December 2005. The exercisable period of the option was within three years from 24 June 2005, the date of the option agreement.

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40. SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Branded distribution HK\$ million	Electronics manufacturing services HK\$ million	Inter-segment elimination HK\$ million	Unallocated HK\$ million	Consolidated HK\$ million
2004 (Restated)					
Turnover:					
Sales of goods to external customers	3,319	2,762	-		6,081
Securities trading	341	-	-		341
Inter-segment sales	111	202	(313)		-
Total	<u>3,771</u>	<u>2,964</u>	<u>(313)</u>		<u>6,422</u>
Result:					
Segment results	<u>411</u>	<u>52</u>	<u>-</u>		463
Unallocated corporate expenses					<u>(34)</u>
					429
Gain on disposal of					
- property, plant and equipment	2	21	-	1	24
- investments available-for-sale	10	-	-	-	10
- properties held for sale	-	6	-	-	6
Net increase in fair value of investment properties	1	-	-	-	1
Impairment loss recognised in respect of investments available-for-sale	(4)	(8)	-	-	(12)
Gain on disposal of subsidiaries	78	11	-	-	89
Interest income					10
Interest expenses					(32)
Taxation					<u>(10)</u>
Profit for the year					<u>515</u>
Assets:					
Segment assets	5,206	3,811	(2,696)	136	<u>6,457</u>
Liabilities:					
Segment liabilities	3,267	1,851	(1,976)	145	<u>3,287</u>
Other information:					
Depreciation and amortisation	<u>102</u>	<u>118</u>		<u>8</u>	<u>228</u>
Capital expenditure	<u>49</u>	<u>81</u>		<u>2</u>	<u>132</u>
Allowance of doubtful debts	<u>9</u>	<u>1</u>		<u>-</u>	<u>10</u>

40. SEGMENT REPORTING (continued)

(b) Geographical segments

	Turnover		Carrying amount of segment assets (Restated)		Capital expenditure incurred during the year	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Asia	3,784	4,194	4,151	4,902	77	132
North America	1,580	1,515	1,070	90	-	-
Europe	674	713	288	150	-	-
Unallocated	-	-	1,311	1,315	-	-
	6,038	6,422	6,820	6,457	77	132

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			<u>2005</u>	<u>2004</u>	
Directly held:					
Broadland Investments Limited	British Virgin Islands	US\$106	100%	100%	Investment holding
The Grande Capetronic Holdings Limited	British Virgin Islands	US\$100	100%	100%	Investment holding
The Grande (Nominees) Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
The Grande (Secretaries) Service Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
The Grande Group Limited	Singapore	S\$5,000,000	100%	100%	Provision of management services
Grande N.A.K.S. Ltd	British Virgin Islands	US\$10,000	100%	100%	Investment holding

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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Directly held: (continued)					
The Grande Industries Limited	British Virgin Islands	US\$101	100%	100%	Investment holding
The Grande Capital Group Limited	British Virgin Islands	US\$1	100%	100%	Corporate finance and Investment holding
Sheer Profit Corporation	British Virgin Islands	US\$1	100%	100%	Investment holding
Indirectly held:					
The Alpha Capital Limited	Hong Kong	HK\$13,121,760	100%	100%	Provision of corporate finance and financial advisory services
Ross Group Plc.^	United Kingdom	GBP11,136,000	71%	71%	Design and manufacture of engineering projects, and the sale and distribution of electronic products
Hi-Tech Precision Products Ltd	British Virgin Islands	US\$1	100%	100%	Investment holding
Sansui Enterprises Limited	Singapore	US\$1	100%	100%	Trading of audio and video products
Sansui Acoustics Research Corporation	British Virgin Islands	US\$2	100%	100%	Brands and trademarks holding
Nakamichi Designs Limited	British Virgin Islands	US\$50,000	100%	100%	Brands and trademarks holding

^ Listed on the London Stock Exchange.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Indirectly held: (continued)					
Nakamichi Enterprises Limited	Singapore	US\$10,001	100%	100%	Trading of audio and video products
Nakamichi Research (S) Pte Ltd	Singapore	S\$600,000	100%	100%	Research and development
Nakamichi Corporation Limited	Singapore	S\$2	100%	100%	Trading of audio and video products
Sound View International Limited	Hong Kong	HK\$100,000	100%	100%	Trading of audio and video products
Capetronic Display Devices Holdings Limited	British Virgin Islands	US\$100	100%	100%	Investment holding
The Capetronic Group Limited (Formerly Lafa International Holdings Limited)	Cayman Islands	HK\$62,844,690	100%	100%	Investment holding
The Grande Properties Limited	Hong Kong	HK\$10,000,000	100%	100%	Property holding
Akai Electric Co., Ltd.	Japan	JPY4,684,650,000	88%	88%	Trading of audio and video products
Phenomenon Agents Limited	British Virgin Islands	US\$50,000	88%	88%	Brands and trademarks holding
N.A.K.S. Enterprises Limited	British Virgin Islands	US\$2	88%	88%	Trading of audio and video products
Akai Sales Pte. Ltd.	Singapore	S\$2	88%	88%	Trading of audio and video products
Nakamichi Corporation	Japan	JPY209,640,000	100%	100%	Trading of audio and video products

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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Indirectly held: (continued)					
Tomei Kawa Electronics International Limited	British Virgin Islands	US\$1	100%	100%	Brands and trademarks holding
Nakamichi Corporation Berhad [#]	Malaysia	RM55,410,180	60%	60%	Manufacture of consumer electronic products
Dorset International Overseas Limited	British Virgin Islands	US\$1	100%	100%	Property holding
S&T International Distribution Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Vigers Property Management Services (Hong Kong) Limited	Hong Kong	HK\$8,000,000	100%	100%	Property management
Vigers Realty Limited	Hong Kong	HK\$10,000	100%	100%	Realty services
Vigers Appraisal and Consulting Limited	Hong Kong	HK\$1,000,000	100%	100%	Assets appraisal services
Vigers Building Consultancy Limited	Hong Kong	HK\$100	100%	100%	Building consultancy services
Lafe Technology Limited ⁺	Bermuda	US\$40,000,000	67%	64%	Investment holding
Lafe Computer Magnetics Limited	Hong Kong	HK\$10,000,000	67%	64%	Marketing agent
Lafe Management Services Limited	Hong Kong	HK\$20	67%	64%	Procurement agent
Lafe Investment Limited	Hong Kong	HK\$20	67%	64%	Property holding
Lafe Electronic Components (Panyu) Co., Ltd.	The People's Republic of China	HK\$35,000,000	67%	64%	Manufacture of computer magnetic heads

[#] Listed on the Kuala Lumpur Stock Exchange.

⁺ Listed on the Singapore Stock Exchange.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Indirectly held: (continued)					
Lafe Peripherals International Limited	The People's Republic of China	US\$100	67%	64%	Trading of computer magnetic heads
Lafe (China) Corporation Limited	The People's Republic of China	US\$100	67%	64%	Manufacture of computer magnetic heads
Tomei Technologies Ltd	British Virgin Islands	US\$100	100%	100%	Investment holding
Tomei Asia Limited	The People's Republic of China	US\$1	100%	100%	Manufacture of mechadecks and video products
Tomei Shoji Limited	The People's Republic of China	US\$1	100%	100%	Manufacture of mechadecks and video products
The Grande Group (Hong Kong) Limited	Hong Kong	HK\$20	100%	100%	Provision of administration services
Polycrown Company Limited	Hong Kong	HK\$100,000	86%	86%	Property holding
South Sea International Press Limited	Hong Kong	HK\$10,000,000	86%	86%	Manufacture and sale of printed products
E-Zone Group Holdings Limited	British Virgin Islands	US\$50,000	100%	100%	Investment holding

None of the subsidiaries had any debt securities subsisting at 31 December 2005 or at any time during the year.

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42. POST BALANCE SHEET EVENTS

On 21 February 2006, the Company and Hi-Tech Precision Products Ltd (“Hi-Tech”), a wholly owned subsidiary of the Group, entered into a Subscription Agreement with DBS Bank Ltd., Hong Kong Branch (“DBS”), which was completed on 22 February 2006, whereby:

- (a) DBS subscribed for, or procured the subscription of, the US\$40 million Zero Coupon Guaranteed Exchangeable Bonds due 2011, exchangeable into SEC shares (“Exchangeable Bonds”), issued by Hi-Tech;
- (b) DBS exercised the option to subscribe for the further US\$10 million Zero Coupon Guaranteed Exchangeable Bonds issued pursuant to the Subscription Agreement.

The holder of each Exchangeable Bond will have an exchange right to exchange such Exchangeable Bond during the period beginning on and after 23 March 2006 and up to the earlier of 17:00 hours on 8 February 2011 for SEC shares at the exchange price of 40.36929 Yen per SEC shares. Assuming full exchange of the Exchangeable Bonds at the exchange price, the Exchangeable Bonds will be exchangeable into 146,683,283 SEC shares, representing 10.76% of the common stocks of SEC (subject to adjustment).

43. COMPARATIVE FIGURES

As explained in note 2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of the consolidated income statement, the consolidated balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been restated or reclassified to conform to the current year’s presentation.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 May 2006.