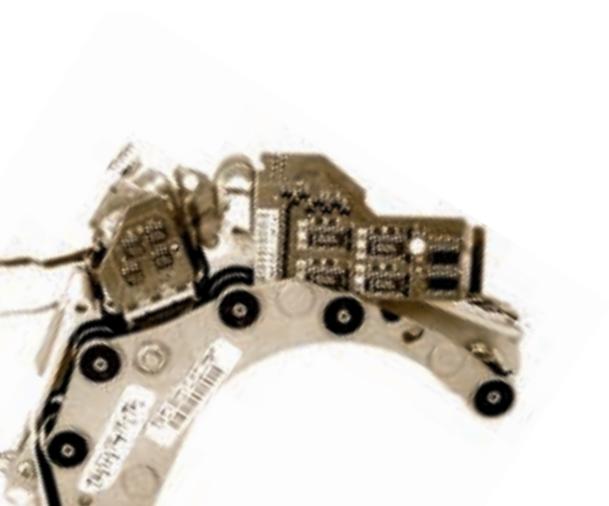
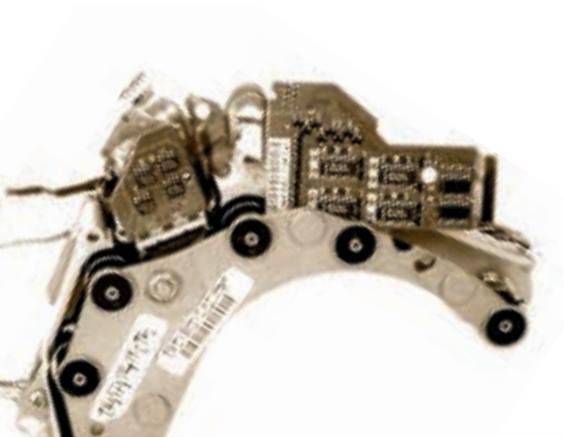

**THE
GRANDE
HOLDINGS
LIMITED**



THE GRANDE HOLDINGS LIMITED



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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

Mr. Samuel K. Yuen
(Resigned on 16 February 2004)

Independent Non-executive Directors

Ms. Anita S. C. Chiu
(Resigned on 9 September 2004)

Mr. Johnny W. H. Lau
(Appointed on 9 September 2004)

Mr. Herbert H. K. Tsoi

Mr. Martin I. Wright
(Appointed on 16 September 2004)

AUDITORS

Deloitte Touche Tohmatsu

COMPANY SECRETARY

Mr. Michael A.B. Binney

ASSISTANT COMPANY SECRETARY

The Bank of Bermuda Limited

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
Overseas Union Trust Building
Singapore 068909

REGISTERED OFFICE

Bank of Bermuda Building,
6 Front Street,
Hamilton HM 11, Bermuda

SOLICITORS

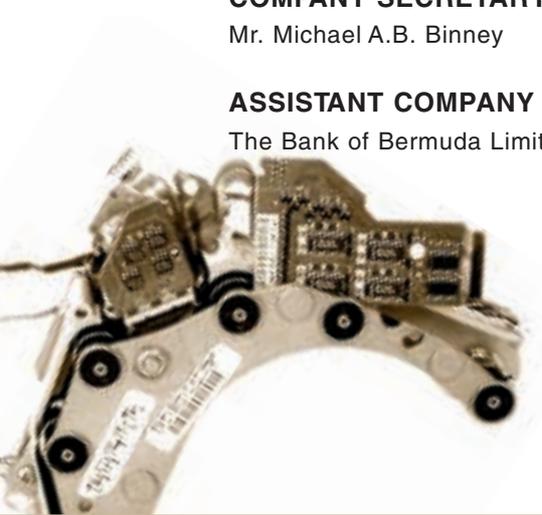
Baker & McKenzie

SHARE REGISTRAR AND TRANSFER OFFICE

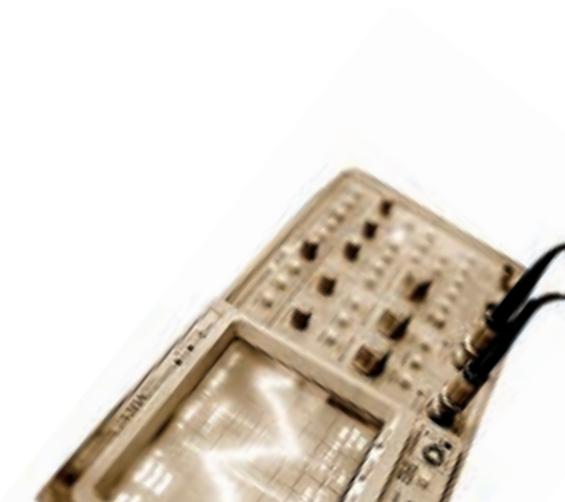
Tengis Limited,
G/F BEA Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

PRINCIPAL BANKERS

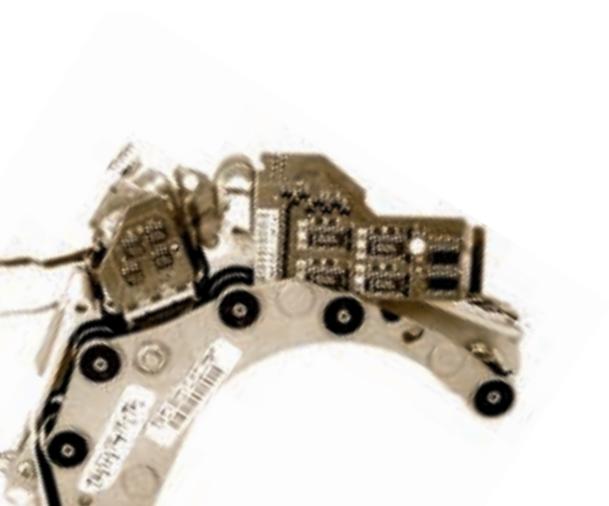
Absa Bank (Asia) Limited
Bank of China (Hong Kong) Limited
The Bank of East Asia, Limited
DBS Bank Limited
Fubon Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited
HSH Nordbank AG
Indover bank (Asia) Limited
Industrial and Commercial Bank of
China (Asia) Limited
Jian Sing Bank Limited
KBC Bank N.V.
Wachovia Bank, N.A.



corporate information



chairman's statement



I am pleased to announce that a consolidated profit attributable to shareholders of HK\$551 million was recorded for the year 2004.

Your Board of Directors has recommended a final dividend for 2004 of HK19 cents per share. Together with the interim dividend of HK11 cents per share on 10 November 2004, the total distribution for the year 2004 is HK30 cents per share.

The previous years of restructuring of the EMS Group and the continuing Brand re-habilitation are now bearing fruit as reflected in the 2004 results. With the disposal of the non-core foreign exchange business in 2003 and the closure of the Thailand facility in 2004, we will continue to rationalise the business and simplify the Group's organisational structure. The results also reflect the strong sales in the US and growing demand in China.

Our Brands (Nakamichi, Akai & Sansui) are well-recognised world wide as leading premium Japanese Brands in the audio, video and display business and have each been in business for more than 50 years. They are now distributed to more than 55 countries across the globe and are meaningful in virtually every consumer electronics market in the world. As pioneers of innovative video products the Brands will continue to offer the latest technology, with particular focus on the flat panel display products such as Plasma and LCD TV's.

Wide screen TV demand is now growing at an exponential rate and the Group is well positioned to take full advantage of this demand. We expect to realize significant growth in sales with the mandated conversion from analog to digital TV over the next few years in both Europe and the US. Growth will also come in the US with the widespread adoption of HDTV as the US Federal Commission pushes for the adoption of Digital TV tuners in all TV's sold in the US. We believe that demand in the PRC will continue to grow given China's continued economic development and the Group will maximise the Brands expansion in this region.

Additional capital expenditure will continue to be made in new Plasma and LCD manufacturing capacity in our major manufacturing facilities in China.

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

Christopher W. Ho
Chairman

Hong Kong, 25 April 2005



review of operations and prospects

For the year 2004, profit attributable to shareholders was HK\$551 million as compared to HK\$450 million for the year 2003.

The total turnover was HK\$6,422 million for the year compared to HK\$7,723 million for 2003. For 2003, this included HK\$1,328 million attributable to the foreign exchange business that was sold in October 2003. The gross profit from operating activities was HK\$788 million as compared to HK\$897 million for 2003.

The core business segments of the Group currently comprise of The Branded Distribution Group and The Electronics Manufacturing Services Group. As noted above the Group disposed of its foreign exchange business which was the primary component of the Financial Services Group, this is therefore no longer considered a core business segment.

The Branded Distribution Group will continue to become an increasing contributor to sales and profits representing 57% of consolidated sales in 2004 as compared to 28% in 2003.

The Branded Distribution Group

The Branded Distribution Group's turnover for 2004 was HK\$3,660 million as compared to HK\$2,128 million for 2003. This was largely a result of increased market penetration and expansion of its product lines to cover flat panel display products, such as Plasma and LCD TV's.

The Group manages the distribution and licensing, including all trademark and patents, 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 have much higher market potential. The Group has continued to invest in the Brands in 2004 by setting up Plasma and LCD assembly lines in China. The Group will continue to stay ahead of the technology curve through its investment in research and development. This has resulted in the Brand's being able to take full advantage of the growing demand for display products. Sales of the Akai Plasma 42" TV were particularly encouraging in the US holiday season towards the end of 2004 and this momentum has continued into 2005. Along with the recent inclusion of a value-for-money Plasma 50" TV, then Akai intends to further maximize on this demand.

With the continuation of increased HDTV programming and DVD sales then wide-screen TV demand will continue to grow world wide and the Group is well positioned to take full advantage of this.

The Group's operating profit for 2004 was HK\$411 million which was a 29% increase compared to HK\$318 million in 2003. The increase in profit is due to the Group's proactive brand management program to manage as well as license the Brands, expand the distribution network, improve the product selection and maintain an efficient cost structure.

The strong Euro has been beneficial to Distributors in Europe in reducing the cost of products from Asia and leading to increased sales. The Group continues to expand in China so as to take advantage of the tremendous demand for products. Contracts have been made with the largest home appliance stores such that Akai and Sansui are now represented in all major cities and territories in China. In addition, significant investment has been made in the advertising and brand marketing in China with the aim that the Brands will become the pre-eminent international Brands in China for consumer electronic products.

review of operations and prospects

The Brands will continue to diversify into other product categories of a like nature, such as home appliances (white goods) for Akai. This has arisen by popular demand from existing distributors, where the retailers sell such products alongside consumer electronic products. Furthermore, the Brands have not yet fully developed the distribution networks in all countries and will target the introduction of products into these untapped markets for increased revenue growth.

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

The Electronic 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, such products include DVD recorders, DVD rewritables, LCD projectors and flat panel monitors.

The EMS turnover for 2004 was HK\$2,762 million, as compared to HK\$4,089 million in 2003. The decrease was as a result of (1) the successful shift to higher value added consumer products such as DVD recorders and LCD projectors, (2) The closure of the Group’s LCD manufacturing operations in Thailand and the transfer of business to the Group’s Zhongshan facility, which began at the end of 2003 and was completed in June 2004; and (3) The phasing out and decrease in demand of the matured Digital Linear Tape Ferrite Head, prior to the build up of turnover of the new generation of Super DLT Magneto-Resistive Heads (“MR heads”).

The EMS Group achieved an operating profit of HK\$52 million for 2004, as compared to HK\$222 million in 2003. In addition to the above factors, Lafe incurred higher material content in new products and continuous pricing pressure from customers, along with increased costs in developing new products during the year.

In anticipation of the uncertain demand and pricing pressure on MR heads for 2005 and the continuing phasing out of ferrite tape heads, Lafe is collaborating with customers in the development of new product designs. This includes new heads as well as other complementary products and we anticipate that an increasing portion of Lafe’s total revenue will be derived from such sales in 2005 as compared to 2004. Lafe has also made good progress in the development of heads and complementary products for the Linear Tape Open (“LTO”) Drive market. The product qualification process has commenced and volume production is expected to be launched within 2005. This will allow Lafe to enter the LTO Drive market and contribute to the Group’s revenue in the near future.

We have not budgeted significant growth in the EMS Group for 2005 but rather expect EMS to provide solid cash flow generation.

The Group is well positioned in terms of technological development to handle customers’ demand for new products and will continue with its strategy of both increasing the value added content in its operation and diversifying its product lines, as well as expanding its customer base.

Adrian C. C. Ma
Group Managing Director

Hong Kong, 25 April 2005

corporate chart

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



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 2004.

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 5 and 36 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 66.

An interim dividend of HK11 cents per ordinary share was paid on 10 November 2004. The directors recommend the payment of a final dividend of HK19 cents per share in respect of the year to the shareholders on the register of members on 22 June 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year covered by the annual report, except that independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

report of the directors

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				
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million	<u>2002</u> HK\$ million	<u>2001</u> HK\$ million	<u>2000</u> HK\$ million
TURNOVER	<u>6,422</u>	<u>7,723</u>	<u>6,646</u>	<u>7,818</u>	<u>8,309</u>
PROFIT/(LOSS) BEFORE TAX	<u>521</u>	<u>445</u>	<u>305</u>	<u>532</u>	<u>(350)</u>
Tax	<u>(11)</u>	<u>2</u>	<u>(3)</u>	<u>(4)</u>	<u>(13)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>510</u>	<u>447</u>	<u>302</u>	<u>528</u>	<u>(363)</u>
Minority interests	<u>41</u>	<u>3</u>	<u>76</u>	<u>(71)</u>	<u>(218)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS (RESTATED)	<u>551</u>	<u>450</u>	<u>378</u>	<u>457</u>	<u>(581)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (AS PREVIOUSLY REPORTED)					<u>406</u>

ASSETS AND LIABILITIES

	31 December				
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million	<u>2002</u> HK\$ million	<u>2001</u> HK\$ million	<u>2000</u> HK\$ million
NON-CURRENT ASSETS	3,488	3,148	3,161	2,251	2,394
CURRENT ASSETS	<u>3,089</u>	<u>3,487</u>	<u>2,639</u>	<u>3,593</u>	<u>3,964</u>
TOTAL ASSETS	<u>6,577</u>	<u>6,635</u>	<u>5,800</u>	<u>5,844</u>	<u>6,358</u>
CURRENT LIABILITIES	2,981	2,740	2,245	2,819	3,697
NON-CURRENT LIABILITIES	<u>318</u>	<u>404</u>	<u>926</u>	<u>221</u>	<u>72</u>
TOTAL LIABILITIES	<u>3,299</u>	<u>3,144</u>	<u>3,171</u>	<u>3,040</u>	<u>3,769</u>
	<u>3,278</u>	<u>3,491</u>	<u>2,629</u>	<u>2,804</u>	<u>2,589</u>
SHARE CAPITAL AND RESERVES	2,802	2,951	2,045	2,052	1,527
MINORITY INTERESTS	<u>476</u>	<u>540</u>	<u>584</u>	<u>752</u>	<u>1,062</u>
	<u>3,278</u>	<u>3,491</u>	<u>2,629</u>	<u>2,804</u>	<u>2,589</u>

report of the directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 12 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 37 and 14 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 28 and 29 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution to shareholders, calculated under the provisions of the Companies Act 1981 of Bermuda amounted to HK\$1,152 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 44%, respectively, of the Group's total turnover for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 10% and 27%, 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 7 to the financial statements.

report of the directors

DIRECTORS

The directors of the Company during the year were:

Mrs. Christine L. S. Asprey	
Mr. Michael A. B. Binney	
Ms. Anita S. C. Chiu	(resigned on 9 September 2004)
Mr. Christopher W. Ho	
Mr. C. F. Lam	
Mr. Johnny W. H. Lau	(appointed on 9 September 2004)
Mr. Paul K. F. Law	
Mr. Adrian C. C. Ma	
Mr. Herbert H. K. Tsoi	
Mr. Samuel K. Yuen	(resigned on 16 February 2004)
Mr. Martin I. Wright	(appointed on 16 September 2004)

In accordance with clauses 99 and 102 of the Bye-Laws of the Company, Mrs. Christine L. S. Asprey, Mr. Michael A. B. Binney, Mr. Johnny W. H. Lau and Mr. Martin I. Wright will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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' INTERESTS IN SHARE CAPITAL

The interests of the directors and their associates in the shares, underlying shares or debt securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO at the balance sheet date are set out below:

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	307,845,822*	66.89%
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 ("GIHL") which owned 307,845,822 ordinary shares in the Company through its wholly owned subsidiary, Barrican Investments Corporation ("BIC").

Save as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations that was required to be recorded under section 352 of the SFO as at 31 December 2004.

report of the directors

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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the interests of every person, other than the directors of the Company, in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Long positions in shares:

Name of shareholders	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company held	% of the issued share capital
Mr. Lawrence Y. L. Ho	Corporate	24,986,000*	5.42%
J. P. Morgan Chase & Co.	Corporate	24,162,000	5.25%
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.

report of the directors

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	54	Chairman	14	Manufacturing, international trading and corporate finance
Mr. Adrian C. C. Ma	60	Group Managing Director and Chief Executive Officer	21	Consumer electronics industry
Mrs. Christine L. S. Asprey	56	Group Executive Director	7	International marketing, market research and industrial affairs
Mr. Michael A. B. Binney	45	Group Executive Director, Company Secretary and Managing Director, Finance and Accounting Group	15	Finance, accounting and corporate restructuring
Mr. C. F. Lam	55	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Magnetic Media Division	30	Computer magnetic media industry
Mr. Paul K. F. Law	48	Group Executive Director and Managing Director, Electronics Manufacturing Services Group – Consumer Electronics Division	13	Consumer electronics industry
Independent Directors				
Mr. Herbert H. K. Tsoi	54	Non-executive Director	7	Solicitor
Mr. Johnny W. H. Lau	59	Non-executive Director	1	Manufacturing and consumer electronics industry
Mr. Martin I. Wright	43	Non-executive Director	1	Finance and accounting

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				
Ms. Anissa Y. Y. Choi	50	Deputy Managing Director	24	Consumer electronics industry
Mr. K. T. Fok	44	Director – Engineering and Operations	22	Computer industry
Mr. Chau Lung	50	Director – Development	22	Computer industry
Branded Distribution Group				
Mr. Christopher K. C. Yip	57	Managing Director	2	Consumer electronics industry, consumer and corporate banking
Mr. Takeshi Nakamichi	55	Deputy Managing Director	33	Product research and development
Mr. Christopher T. O. Chiang	48	Executive Director	6	Sales and marketing
Mr. Ata Malik	58	Executive Director	32	Sales and marketing
Ms. Ann Leong	46	Executive Director	4	Sales and marketing
Mr. H. C. Yeung	46	General Manager – China	21	Sales and marketing
Treasury				
Mrs. Eleanor Crosthwaite	51	Managing Director	19	Treasury
Mr. Tony W. M. Lam	40	Director	13	Banking and treasury
Legal				
Ms. Ruby Y. K. Lee	43	Group Legal Counsel	11	Solicitor

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2004 was approximately 10,000. Employees are remunerated according to their performance and working experience, and the nature of the job and market conditions.

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.

report of the directors

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 2004, which constitutes connected transactions under the Listing Rules is disclosed in note 4 to the financial statements.

AUDIT COMMITTEE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has established an Audit Committee.

The members of the Audit Committee during the year were:

Independent non-executive directors

Mr. Herbert H. K. Tsoi	
Ms. Anita S. C. Chiu	(resigned on 9 September 2004)
Mr. Johnny W. H. Lau	(appointed on 9 September 2004)
Mr. Martin I. Wright	(appointed on 16 September 2004)

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

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
25 April 2005

report of the auditors

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

We have audited the financial statements on pages 24 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing 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 Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 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
25 April 2005

consolidated income statement

year ended 31 December 2004

	Notes	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
TURNOVER	5	6,422	7,723
Cost of sales		<u>(5,634)</u>	<u>(6,826)</u>
Gross profit		788	897
Other operating income		201	199
Distribution costs		(98)	(116)
Administrative expenses		(264)	(297)
Other operating expenses		<u>(163)</u>	<u>(234)</u>
PROFIT FROM OPERATING ACTIVITIES		464	449
Gain on disposal of subsidiaries		89	30
Finance costs		<u>(32)</u>	<u>(34)</u>
PROFIT BEFORE TAX	6	521	445
Tax	8	<u>(11)</u>	<u>2</u>
PROFIT BEFORE MINORITY INTERESTS		510	447
Minority interests		<u>41</u>	<u>3</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>551</u>	<u>450</u>
DISTRIBUTION TO SHAREHOLDERS	9	<u>741</u>	<u>90</u>
		HK\$	HK\$
EARNINGS PER SHARE	10		
Basic		<u>1.20</u>	<u>1.05</u>
Diluted		<u>N/A</u>	<u>N/A</u>

consolidated balance sheet

31 December 2004

	Notes	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,116	1,323
Investment properties	12	58	60
Interests in associates	14	–	–
Long term investments	15	636	58
Brands, trademarks and patents	16	1,315	1,391
Other assets	17	99	36
Goodwill	18	268	284
Negative goodwill	18	(4)	(4)
		<hr/> 3,488	<hr/> 3,148
CURRENT ASSETS			
Cash and bank balances		789	785
Pledged deposits with banks		20	21
Short term investments	19	416	773
Properties held for sale	20	–	92
Accounts, bills and other receivables	21	701	767
Amounts due from associates	14	–	92
Inventories	22	734	738
Prepayments, deposits and other assets		429	218
Tax recoverable		–	1
		<hr/> 3,089	<hr/> 3,487
CURRENT LIABILITIES			
Bank overdrafts	34	696	616
Trust receipt loans	34	562	490
Current portion of secured bank loans	23, 34	153	164
Current portion of unsecured bank loans	23	31	267
Obligations under finance leases	24, 34	9	9
Accounts and bills payables	25	669	851
Accrued liabilities and other payables		859	339
Tax		2	4
		<hr/> 2,981	<hr/> 2,740
NET CURRENT ASSETS		<hr/> 108	<hr/> 747

consolidated balance sheet

31 December 2004

	Notes	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,596</u>	<u>3,895</u>
NON-CURRENT LIABILITIES			
Non-current portion of secured bank loans	23, 34	130	178
Non-current portion of unsecured bank loans	23	30	–
Obligations under finance leases	24, 34	–	9
Deferred tax	26	12	11
Provision for retirement and long service	27	60	57
Accrued liabilities and other payables		<u>86</u>	<u>149</u>
		<u>318</u>	<u>404</u>
		<u>3,278</u>	<u>3,491</u>
CAPITAL AND RESERVES			
Share capital	28	46	46
Share premium	29	812	812
Reserves	30	<u>1,944</u>	<u>2,093</u>
		<u>2,802</u>	<u>2,951</u>
MINORITY INTERESTS		<u>476</u>	<u>540</u>
		<u>3,278</u>	<u>3,491</u>

Christopher W. Ho
Chairman

Michael A. B. Binney
Director

consolidated statement of changes in equity

year ended 31 December 2004

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Total equity at 1 January	<u>2,951</u>	<u>2,045</u>
Effect of change in tax rate	–	(3)
Change in fair value of equity securities	4	15
Surplus/(deficit) on revaluation of investment properties	1	(3)
Exchange differences on translation of the financial statements of overseas subsidiaries	<u>–</u>	<u>(37)</u>
Net gain/(loss) not recognised in the income statement	5	(28)
Realisation on disposal of long term investments	13	–
Realisation on disposal of subsidiaries	23	–
Impairment loss in respect of long term investments recognised to income statement	–	10
Net profit attributable to shareholders	551	450
Distribution to shareholders	(741)	(90)
Net proceeds from issue of new shares	<u>–</u>	<u>564</u>
Total equity at 31 December	<u>2,802</u>	<u>2,951</u>

consolidated cash flow statement

year ended 31 December 2004

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
OPERATING ACTIVITIES		
Profit from operating activities	464	449
Adjustments for:		
Gain on disposal of long term investments	(10)	(10)
Gain on disposal of properties held for sale	(6)	–
Interest income	(10)	(5)
Depreciation	124	128
Change in fair value of short term equity securities	(129)	(83)
Release of negative goodwill	(1)	(1)
Amortisation of goodwill	16	16
Amortisation of brands, trademarks and patents	78	78
Amortisation of other assets	14	7
Allowance for doubtful debts	10	–
Gain on disposal of property, plant and equipment	(24)	(3)
Impairment loss reversed in respect of properties held for sale	–	(18)
Impairment loss recognised in respect of long term investments	12	10
Impairment loss recognised in respect of other assets	–	15
Operating cash flows before movements in working capital	<u>538</u>	<u>583</u>
Decrease in accounts, bills and other receivables	56	673
Decrease in inventories	3	97
Increase in short term investments	(167)	(507)
Increase in prepayments, deposits and other assets	(133)	(507)
Decrease/(increase) in amounts due from associates	92	(17)
Decrease in accounts and bills payables	(183)	(2)
Increase/(decrease) in accrued liabilities and other payables	459	(422)
Cash generated from/(used in) operations	<u>665</u>	<u>(102)</u>
Interest paid	(32)	(33)
Hong Kong profits tax paid	(9)	(4)
Overseas profits tax (paid)/refunded	(2)	1
Net cash generated from/(used in) operating activities	<u>622</u>	<u>(138)</u>

consolidated cash flow statement

year ended 31 December 2004

	Notes	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		<u>622</u>	<u>(138)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(55)	(90)
Purchase of subsidiaries	31(a)	–	(2)
Purchase of additional interests in a subsidiary		(11)	–
Purchase of investment properties		–	(49)
Payments for other assets		(54)	(27)
Purchase of long term investments		(593)	(2)
Decrease in pledged deposits with banks		1	40
Interest received		10	6
Proceeds from disposal of property, plant and equipment		36	35
Proceeds from disposal of long term investments		38	–
Proceeds from disposal of properties held for sale		81	–
Proceeds from disposal of investment properties		3	–
Disposal of subsidiaries	31(b)	<u>151</u>	<u>(16)</u>
Net cash used in investing activities		<u>(393)</u>	<u>(105)</u>
FINANCING ACTIVITIES			
Proceeds from issue of shares		–	576
Share issue expenses		–	(12)
Dividend paid to minority interests		(4)	(23)
Dividends paid		(97)	(90)
Capital element of finance lease rental payments		(9)	(9)
New secured bank loans		–	88
New unsecured bank loans		73	90
Repayment of secured bank loans		(62)	(157)
Repayment of unsecured bank loans		(279)	(219)
Increase/(decrease) in trust receipt loans		72	(48)
Net cash (used in)/generated from financing activities		<u>(306)</u>	<u>196</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(77)</u>	<u>(47)</u>
Cash and cash equivalents at beginning of year		169	213
Effect of foreign exchange rate changes, net		<u>1</u>	<u>3</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>93</u>	<u>169</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		789	785
Bank overdrafts		<u>(696)</u>	<u>(616)</u>
		<u>93</u>	<u>169</u>

balance sheet

31 December 2004

	Notes	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
NON-CURRENT ASSETS			
Interests in subsidiaries	13	1,238	1,238
Amounts due from subsidiaries	13	2,776	3,531
		4,014	4,769
CURRENT ASSETS			
Cash and bank balances		13	–
Short term investments	19	1	1
		14	1
CURRENT LIABILITIES			
Current portion of secured bank loans	23, 34	8	8
Current portion of unsecured bank loans	23	28	44
Accrued liabilities and other payables		1	7
		37	59
NET CURRENT LIABILITIES		(23)	(58)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,991	4,711
NON-CURRENT LIABILITIES			
Non-current portion of secured bank loans	23, 34	40	48
Non-current portion of unsecured bank loans	23	30	–
Amounts due to subsidiaries	13	1,550	2,050
		1,620	2,098
		2,371	2,613
CAPITAL AND RESERVES			
Share capital	28	46	46
Share premium	29	812	812
Reserves	30	1,513	1,755
		2,371	2,613

Christopher W. Ho
Chairman

Michael A. B. Binney
Director

notes to financial statements

31 December 2004

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.

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 37 and 14 respectively. In the opinion of the directors, the ultimate holding company is The Grande International Holdings Limited, a company incorporated in the British Virgin Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of 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 2004. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 title, 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; and
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.
- income from properties held for sale is recognised on the execution of a binding sales agreement.
- income from sale of investments in securities is recognised on a trade-date basis and the execution of a binding contract.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of another enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received during the year.

notes to financial statements

31 December 2004

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

Associates

An associate is an enterprise, not being a subsidiary, in which the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investment in associates is stated in the consolidated balance sheet at the Group's share of the net assets. Where audited financial statements are not co-terminus with those of the Group, the share of the results is arrived at from the latest audited financial statements available or unaudited management financial statements to 31 December.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life but not more than 20 years.

Negative goodwill

Negative goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiary or associate. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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.

notes to financial statements

31 December 2004

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

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. Surpluses arising on revaluation are credited directly to reserves, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

In accordance with the transitional provisions set out in paragraph 80 of the Statement of Standard Accounting Practice ("SSAP") 17 (revised), "Property, plant and equipment" issued by the Hong Kong Institute of Certified Public Accountants in 1995, subsequent revaluations of the leasehold land and buildings of the Group, which have been carried at revalued amounts prior to 30 September 1995, will not be undertaken on a regular basis.

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 land outside Hong Kong	99 years
Long term leasehold buildings outside Hong Kong	45 years
Medium term leasehold land and buildings in Hong Kong	20 to 40 years
Medium term leasehold land and 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. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged as an expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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.

The gain or loss on disposal or retirement of an asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all costs attributable to such development, including finance charges. No depreciation is provided on properties held for sale.

notes to financial statements

31 December 2004

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. They are stated at their open market values on the basis of annual valuations. Any surplus or deficit on revaluation is taken to the investment property revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, the surplus is credited to the income statement to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve recognised in respect of previous valuations is released to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuations take into account the state of the buildings.

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.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

notes to financial statements

31 December 2004

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

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

Brands, trademarks and patents

Brands, trademarks and patents are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided over their estimated useful lives but not more than 20 years.

Research and deferred development costs

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

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably; there is a reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria are expensed when incurred.

Deferred development costs are amortised, using the straight-line basis, over the expected useful lives of the products not exceeding five years, commencing in the year when the products are put into commercial production.

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

notes to financial statements

31 December 2004

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

Impairment (*continued*)

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.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas subsidiaries and the Group's share of net assets of overseas associates are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Income and expenses items are translated at the average exchange rates for the year. The resulting translation differences are included in the exchange fluctuation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

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

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 net 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.

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 negative 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 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.

notes to financial statements

31 December 2004

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

Tax (*continued*)

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.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the Group's results of operations and financial position.

The Group will be continuing with the assessment of the impact of the new HKFRSs and other significant changes may be identified as a result.

4. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year ended 31 December 2004:

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Interest from associates	—	4

The interest from associates arose from loans, the terms and other details of which are set out in note 14 to the financial statements.

5. TURNOVER

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

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

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
By principal activity:		
Branded distribution	3,660	2,128
Electronics manufacturing services	2,762	4,089
Financial services	—	1,506
	<u>6,422</u>	<u>7,723</u>

notes to financial statements

31 December 2004

6. PROFIT BEFORE TAX

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

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Depreciation of property, plant and equipment:		
Owned assets	122	127
Leased assets	2	1
Operating lease rentals:		
Land and buildings	24	45
Interest on:		
Bank overdrafts and loans wholly repayable within five years	30	33
Bank loans wholly repayable beyond five years	2	–
Finance leases	–	1
Auditors' remuneration	6	8
Release of negative goodwill included in other operating income	(1)	(1)
Amortisation of goodwill included in other operating expenses	16	16
Amortisation of brands, trademarks and patents included in other operating expenses	78	78
Amortisation of other assets included in other operating expenses	14	7
Allowance for doubtful debts	10	–
Staff costs:		
Salaries and other benefits	162	170
Retirement benefit costs	6	10
Manufacturing cost	420	483
Net foreign exchange losses	35	77
Impairment loss reversed in respect of properties held for sale	–	(18)
Impairment loss recognised in respect of long term investments	12	10
Impairment loss recognised in respect of other assets	–	15
Research and development expenditure	–	2
Gain on disposal of property, plant and equipment	(24)	(3)
Change in fair value of short term equity securities	(129)	(83)
Gain on disposal of long term investments	(10)	(10)
Gain on disposal of properties held for sale	(6)	–
Interest income	(10)	(5)

notes to financial statements

31 December 2004

7. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Fees	–	–
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	15	16
Bonuses paid and payable	<u>2</u>	<u>2</u>
	<u>17</u>	<u>18</u>

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

HK\$	<u>2004</u> Number of directors	<u>2003</u> Number of directors
Nil – 1,000,000	6	3
1,000,001 – 1,500,000	–	2
1,500,001 – 2,000,000	1	–
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	1	1
5,500,001 – 6,000,000	<u>1</u>	<u>1</u>

There was no arrangement under which a director had waived or agreed to waive any remuneration.

The directors' fee payable to each of the independent non-executive directors of the Company for the year ended 31 December 2004 amounted to HK\$100,000 (2003: HK\$100,000) per annum.

notes to financial statements

31 December 2004

7. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS (*continued*)

Employee Costs

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Basic salaries, housing, other allowances and benefits in kind	5	4
Bonuses paid and payable	<u>1</u>	<u>1</u>
	<u>6</u>	<u>5</u>

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

HK\$	<u>2004</u> Number of non-directors	<u>2003</u> Number of non-directors
2,500,001 – 3,000,000	<u>2</u>	<u>2</u>

The five individuals whose emoluments were the highest in the Group during the year included three (2003: three) directors and two (2003: two) non-directors of the Company, details of whose remuneration are set out above.

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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>2004</u> HK\$ million	<u>2003</u> HK\$ million
The tax charge/(credit) comprises:		
Current year provision		
Hong Kong	3	3
Overseas	–	2
Under provision in prior year		
Hong Kong	7	–
Deferred tax (Note 26)		
Hong Kong	1	(1)
Overseas	–	(6)
	<u>11</u>	<u>(2)</u>

notes to financial statements

31 December 2004

8. TAX (continued)

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

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Profit before tax	<u>521</u>	<u>445</u>
Notional tax calculated at Hong Kong profits tax rate of 17.5%	91	78
Effect of different tax rates in overseas jurisdictions	2	(10)
Income and expenses not subject to tax	(123)	(73)
Unused tax losses not recognised	40	12
Utilisation of unrecognised tax losses	(6)	(3)
Under provision in prior year	7	–
Others	–	(6)
	<u>11</u>	<u>(2)</u>

9. DISTRIBUTION TO SHAREHOLDERS

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Interim dividend of HK11 cents (2003: HK10 cents) per share on 460.2 million shares	51	46
2003 final dividend of HK10 cents (2002: HK11 cents) per share on 460.2 million shares (2002: 400.2 million shares)	46	44
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)	<u>644</u>	–
	<u>741</u>	<u>90</u>

A final dividend in respect of 2004 of HK19 cents per share on 460.2 million shares amounting to a total of HK\$87 million was approved by the Board after the balance sheet date, and not recognised as a liability as at 31 December 2004.

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10. EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to shareholders of HK\$551 million (2003: HK\$450 million) and on the weighted average of approximately 460.2 million shares (2003: 429.3 million shares) in issue during the year.

Diluted earnings per share has not been presented as the Company did not have any potential ordinary shares during the two years.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK\$ million	Plant, equipment and other assets HK\$ million	Moulds HK\$ million	Total HK\$ million
Cost or valuation:				
At 1 January 2004	947	1,171	231	2,349
Foreign currency adjustment	–	5	–	5
Additions	1	40	14	55
Disposal of subsidiaries	(26)	(6)	–	(32)
Disposals	(29)	(243)	(37)	(309)
At 31 December 2004	<u>893</u>	<u>967</u>	<u>208</u>	<u>2,068</u>
Accumulated depreciation:				
At 1 January 2004	138	729	159	1,026
Foreign currency adjustment	–	4	–	4
Provided during the year	24	75	25	124
Disposal of subsidiaries	(11)	(5)	–	(16)
Disposals	(7)	(145)	(34)	(186)
At 31 December 2004	<u>144</u>	<u>658</u>	<u>150</u>	<u>952</u>
Net book values:				
At 31 December 2004	<u>749</u>	<u>309</u>	<u>58</u>	<u>1,116</u>
At 31 December 2003	<u>809</u>	<u>442</u>	<u>72</u>	<u>1,323</u>

The net book value of plant and machinery held under finance leases at 31 December 2004 amounted to HK\$20 million (2003: HK\$35 million).

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11. PROPERTY, PLANT AND EQUIPMENT (*continued*)

Land and buildings comprise:

	Group	
	2004 HK\$ million	2003 HK\$ million
Freehold land and buildings outside Hong Kong:		
At cost	—	26
Long term leasehold land and buildings outside Hong Kong:		
At cost	68	68
Medium term leasehold land and buildings in Hong Kong:		
At cost	14	14
At 1993 professional valuation	279	279
	293	293
Medium term leasehold land and buildings outside Hong Kong:		
At cost	271	279
At 1993 professional valuation	261	281
	532	560
Total cost or valuation	893	947

The valuation of medium term leasehold land and buildings in Hong Kong of HK\$301 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. During the year ended 31 December 1998, HK\$22 million of these leasehold land and buildings was disposed of.

The valuation of medium term leasehold land and buildings outside Hong Kong of HK\$281 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 January 1993. During the year ended 31 December 2004, HK\$20 million of these leasehold land and buildings was disposed of.

The Group has adopted the transitional arrangement set out in SSAP 17 (revised) "Property, plant and equipment" of not making subsequent regular revaluations on the above premises which have been carried at revalued amounts prior to 30 September 1995.

Had the revalued assets been stated at their cost less accumulated depreciation, the carrying amount of land and buildings as at 31 December 2004 would be restated at HK\$443 million (2003: HK\$480 million).

Certain of the above properties and plant and machinery held by the Group were pledged to secure banking and finance lease facilities (note 34).

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12. INVESTMENT PROPERTIES

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
At valuation		
At beginning of year	60	14
Acquisition	–	49
Disposals	(3)	–
Surplus/(deficit) on revaluation	1	(3)
	<u>58</u>	<u>60</u>
At end of year	<u>58</u>	<u>60</u>

The carrying amount of investment properties comprises land as follows:

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Land outside Hong Kong:		
Freehold	45	46
Medium term leasehold	6	5
	<u>51</u>	<u>51</u>
Medium term leasehold land in Hong Kong	7	9
	<u>7</u>	<u>9</u>
Carrying amount	<u>58</u>	<u>60</u>

The investment properties of HK\$45 million was revalued by Allsop & Co, an independent firm of professional valuers, on an open market, existing use basis as at 31 December 2004.

The investment properties of HK\$13 million was revalued by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market, existing use basis as at 31 December 2004.

All the Group's investment properties are rented out under operating leases.

13. INTERESTS IN SUBSIDIARIES

	Company	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Unlisted shares, at cost	<u>1,238</u>	<u>1,238</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The Company has agreed not to demand for repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Particulars of the principal subsidiaries are set out in note 37.

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14. INTERESTS IN ASSOCIATES

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Share of net assets	—	—

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

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
		<u>2004</u>	<u>2003</u>	
GrandeTel Technologies Inc. ("GrandeTel") ⁺	Canada	—	42%	Telecommunications

⁺ Traded over the counter on the Nasdaq Stock Exchange.

GrandeTel was formerly a 42% owned associate of The Alpha Capital Group Limited ("ACGL"), a 100% owned subsidiary of the Group. The Group's interests in GrandeTel was disposed of together with the disposal of ACGL in June 2004.

At 31 December 2003, the amounts due from associate included HK\$86 million which bears interest at commercial rates. The remaining balances with associate were unsecured, interest-free and had no fixed terms of repayment.

No interest income from associates was received during the year ended 31 December 2004 (2003: HK\$4 million).

15. LONG TERM INVESTMENTS

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Listed investments, at market value		
Hong Kong	—	9
Outside Hong Kong	21	22
Unlisted investments, at cost less impairment	615	27
	<u>636</u>	<u>58</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.

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16. BRANDS, TRADEMARKS AND PATENTS

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Gross amount		
At beginning of year	1,541	1,547
Foreign currency adjustment	2	(6)
	<u>1,543</u>	<u>1,541</u>
At end of year		
Accumulated amortisation:		
At beginning of year	150	72
Provided for the year	78	78
	<u>228</u>	<u>150</u>
At end of year		
Carrying amount at end of year	<u>1,315</u>	<u>1,391</u>

The amortisation period adopted for brands, trademarks and patents is 20 years.

On 28 September 2004, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with SEC in respect of the sale of Sansui trademarks at a consideration of 7.8 billion Yen (equivalent to approximately HK\$548 million). The consideration is payable in cash or if agreed by SEC and the Group, on or before the completion of the agreement may be payable through the issue of convertible bonds. The transaction is conditional upon the approval of the Japanese and Hong Kong regulatory authorities having been obtained. At the date of this report, the transaction had not yet been completed. Details of the transaction are disclosed in the Company's announcement dated 6 October 2004.

At 31 December 2004, the consideration of 7.8 billion Yen (equivalent to HK\$593 million) was received by the Group and was included in accrued liabilities and other payables in current liabilities.

17. OTHER ASSETS

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Deferred development costs:		
At beginning of year	72	45
Additions	77	27
	<u>149</u>	<u>72</u>
At end of year		
Accumulated amortisation and impairment:		
At beginning of year	36	14
Impairment loss recognised	–	15
Provided for the year	14	7
	<u>50</u>	<u>36</u>
At end of year		
Carrying amount at end of year	<u>99</u>	<u>36</u>

The amortisation period adopted for deferred development costs ranges from 3 to 5 years.

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18. GOODWILL/(NEGATIVE GOODWILL)

	Group			
	Goodwill		Negative goodwill	
	2004 HK\$ million	2003 HK\$ million	2004 HK\$ million	2003 HK\$ million
Gross amount				
At beginning of year	304	221	(5)	(10)
Additional interest in subsidiaries	–	–	(1)	–
Acquisition of subsidiaries	–	83	–	–
Disposal of subsidiaries	–	–	–	5
At end of year	<u>304</u>	<u>304</u>	<u>(6)</u>	<u>(5)</u>
(Amortisation)/release				
At beginning of year	(20)	(4)	1	2
Provided for the year	(16)	(16)	1	1
Disposal of subsidiaries	–	–	–	(2)
At end of year	<u>(36)</u>	<u>(20)</u>	<u>2</u>	<u>1</u>
Carrying amount at end of year	<u>268</u>	<u>284</u>	<u>(4)</u>	<u>(4)</u>

The goodwill/(negative goodwill) is (amortised)/released to the income statement on a straight-line basis of 20 years.

19. SHORT TERM INVESTMENTS

	Notes	Group		Company	
		2004 HK\$ million	2003 HK\$ million	2004 HK\$ million	2003 HK\$ million
Listed investments, at market value					
Outside Hong Kong	(a)	415	763	–	–
Unlisted investments, at fair value	(b)	1	10	1	1
		<u>416</u>	<u>773</u>	<u>1</u>	<u>1</u>

Notes:

- (a) Included in the listed investments was the Group's investment in SEC, a company incorporated in Japan whose shares are listed on the first section of the Tokyo Stock Exchange, with a carrying amount of HK\$415 million (2003: HK\$763 million). The Group's investment represents a 17.72% (2003: 47.26%) holding of the ordinary shares of SEC. SEC is principally engaged in the manufacture and sales of audio, visual and other electronics products. SEC is not regarded as an associate of the Group because the directors of the Company do not intend to hold the shares in SEC for long term purposes. The investment is therefore accounted for as short term investments under SSAP 24 "Accounting for investments in securities", and is carried at fair value, with valuation movements dealt with in the income statement for the year.
- (b) At 31 December 2003, the unlisted investments included convertible instruments amounting to HK\$9 million which were issued by an associate of the Group.

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20. PROPERTIES HELD FOR SALE

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
At net realisable value		
At beginning of year	92	74
Disposal of subsidiaries	(17)	–
Disposals	(75)	–
Impairment loss reversed	–	18
	<u>–</u>	<u>18</u>
At end of year	<u>–</u>	<u>92</u>

21. 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:

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
0 – 3 months	645	675
3 – 6 months	16	20
Over 6 months	40	72
	<u>701</u>	<u>767</u>

22. INVENTORIES

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Raw materials	307	353
Work in progress	52	60
Finished goods	375	325
	<u>734</u>	<u>738</u>

Included above are raw materials of HK\$307 million (2003: HK\$253 million) and finished goods of HK\$375 million (2003: HK\$60 million) which are carried at net realisable value.

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23. BANK LOANS

	Group		Company	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Secured bank loans wholly repayable:				
Within one year	153	164	8	8
In the second year	49	51	8	8
In the third to fifth years, inclusive	49	87	24	24
Beyond five years	32	40	8	16
	<u>283</u>	<u>342</u>	<u>48</u>	<u>56</u>
Portion classified as current liabilities	<u>(153)</u>	<u>(164)</u>	<u>(8)</u>	<u>(8)</u>
Portion classified as non-current liabilities	<u>130</u>	<u>178</u>	<u>40</u>	<u>48</u>
Unsecured bank loans wholly repayable:				
Within one year	31	267	28	44
In the second year	17	–	17	–
In the third to fifth years, inclusive	13	–	13	–
	<u>61</u>	<u>267</u>	<u>58</u>	<u>44</u>
Portion classified as current liabilities	<u>(31)</u>	<u>(267)</u>	<u>(28)</u>	<u>(44)</u>
Portion classified as non-current liabilities	<u>30</u>	<u>–</u>	<u>30</u>	<u>–</u>

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24. OBLIGATIONS UNDER FINANCE LEASES

	Group		Present value of minimum lease payments	
	Minimum lease payments			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Amounts payable under finance leases:				
Within one year	9	10	9	9
In the second year	–	9	–	9
	<u>9</u>	<u>19</u>	<u>9</u>	<u>18</u>
Less: future finance charges	–	(1)	–	–
Present value of lease obligations	<u>9</u>	<u>18</u>	<u>9</u>	<u>18</u>
Portion classified as current liabilities			<u>(9)</u>	<u>(9)</u>
Non-current portion			<u>–</u>	<u>9</u>

The average lease term is 3 years. During the year, the average effective borrowing rate was 2.97% (2003: 3.07%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

25. ACCOUNTS AND BILLS PAYABLES

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

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
0 – 3 months	624	792
3 – 6 months	12	33
Over 6 months	33	26
	<u>669</u>	<u>851</u>

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26. 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	Group Tax losses	Total
	HK\$ million	HK\$ million	HK\$ million
At 1 January 2003	33	(2)	31
Arising from acquisition of subsidiaries	–	(16)	(16)
Credited to income statement (Note 8)	(7)	–	(7)
Debited to reserves	3	–	3
	<u>29</u>	<u>(18)</u>	<u>11</u>
At 31 December 2003 and 1 January 2004	29	(18)	11
Debited to income statement (Note 8)	–	1	1
	<u>–</u>	<u>1</u>	<u>1</u>
At 31 December 2004	<u>29</u>	<u>(17)</u>	<u>12</u>

(b) Deferred tax assets not recognised:

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

	2004 HK\$ million	Group 2003 HK\$ million
Tax losses carried forward	9,301	8,857
Accelerated depreciation allowances	263	230
	<u>9,564</u>	<u>9,087</u>

The tax losses do not expire under current tax legislation.

(c) Deferred tax liabilities not recognised:

There were no significant deferred tax liabilities not recognised for the year of 2004 (2003: Nil).

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27. PROVISION FOR RETIREMENT AND LONG SERVICE

	Group	
	2004 HK\$ million	2003 HK\$ million
At beginning of year	93	112
Foreign currency adjustment	–	4
Acquisition of subsidiaries	–	3
Additional provision	5	7
Utilisation of provision	<u>(38)</u>	<u>(33)</u>
At end of year	<u>60</u>	<u>93</u>
Analysis of provisions:		
Current liabilities	–	36
Non-current liabilities	<u>60</u>	<u>57</u>
	<u>60</u>	<u>93</u>

28. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each million	Amount HK\$ million
Authorised:		
At 1 January 2003, 31 December 2003 and 31 December 2004	<u>1,000</u>	<u>100</u>
Issued and fully paid:		
At 1 January 2003	400	40
Issue of new shares	<u>60</u>	<u>6</u>
At 31 December 2003 and 31 December 2004	<u>460</u>	<u>46</u>

In July 2003, arrangements were made for a private placement to independent private investors of 40 million shares of HK\$0.10 each in the Company held by Barrican Investments Corporation ("BIC"), a substantial shareholder of the Company, at a price of HK\$9.60 per share representing a discount of approximately 9.86% to the closing market price of the Company's shares on 8 July 2003.

Pursuant to a subscription agreement of the same date, BIC subscribed for 60 million new shares of HK\$0.10 each in the Company at a price of HK\$9.60 per share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 25 June 2003 and rank pari passu with other shares in issue in all respects.

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29. SHARE PREMIUM

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
At beginning of year	812	254
Premium on issue of new shares	–	570
Share issue expenses	–	(12)
	<u>812</u>	<u>812</u>

30. RESERVES

<u>2003</u>	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
Group						
At 1 January 2003	961	(24)	458	(194)	550	1,751
Effect of change in tax rate	–	–	(3)	–	–	(3)
Arising on consolidation of overseas subsidiaries	–	–	–	(37)	–	(37)
Surplus on revaluation of equity securities	–	15	–	–	–	15
Deficit on revaluation of investment properties	–	(3)	–	–	–	(3)
Impairment loss recognised in respect of long term equity securities	–	10	–	–	–	10
Profit for the year	–	–	–	–	450	450
Distribution to shareholders	–	–	–	–	(90)	(90)
	<u>961</u>	<u>(2)*</u>	<u>455[#]</u>	<u>(231)</u>	<u>910</u>	<u>2,093</u>
The reserves are retained as follows:						
Company and subsidiaries	961	(2)	455	(229)	936	2,121
Associates	–	–	–	(2)	(26)	(28)
	<u>961</u>	<u>(2)</u>	<u>455</u>	<u>(231)</u>	<u>910</u>	<u>2,093</u>

[#] The balance of capital reserve comprises goodwill and negative goodwill of HK\$124 million and HK\$216 million, respectively.

^{*} The balance of investment revaluation reserve included investment property revaluation reserve of HK\$2 million.

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30. RESERVES (continued)

	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
2003						
Company						
At 1 January 2003	961	–	361	–	523	1,845
Distribution to shareholders	–	–	–	–	(90)	(90)
At 31 December 2003	<u>961</u>	<u>–</u>	<u>361</u>	<u>–</u>	<u>433</u>	<u>1,755</u>
2004						
Group						
At 1 January 2004	961	(2)	455	(231)	910	2,093
Surplus on revaluation of equity securities	–	4	–	–	–	4
Surplus on revaluation of investment properties	–	1	–	–	–	1
Released on disposal of long term investments	–	13	–	–	–	13
Released on disposal of subsidiaries	–	–	(12)	35	–	23
Profit for the year	–	–	–	–	551	551
Distribution to shareholders	–	–	–	–	(741)	(741)
At 31 December 2004	<u>961</u>	<u>16*</u>	<u>443#</u>	<u>(196)</u>	<u>720</u>	<u>1,944</u>
The reserves are retained as follows:						
Company and subsidiaries	<u>961</u>	<u>16</u>	<u>443</u>	<u>(196)</u>	<u>720</u>	<u>1,944</u>

The balance of capital reserve comprises goodwill and negative goodwill of HK\$124 million and HK\$210 million, respectively.

* The balance of investment revaluation reserve included investment property revaluation reserve of HK\$3 million.

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31 December 2004

30. RESERVES (continued)

	Contributed reserve	Investment revaluation reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<u>2004</u>						
Company						
At 1 January 2004	961	-	361	-	433	1,755
Profit for the year	-	-	-	-	499	499
Distribution to shareholders	-	-	-	-	(741)	(741)
	<u>961</u>	<u>-</u>	<u>361</u>	<u>-</u>	<u>191</u>	<u>1,513</u>
At 31 December 2004	961	-	361	-	191	1,513

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Purchases of subsidiaries

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Net assets acquired:		
Property, plant and equipment	-	2
Cash and bank balances	-	39
Accounts and bills receivables	-	19
Inventories	-	10
Prepayments, deposits and other assets	-	4
Amount due from associates	-	(20)
Accounts and bills payable	-	(18)
Accrued liabilities and other payable	-	(56)
Bank loans	-	(38)
Deferred tax	-	16
	<u>-</u>	<u>(42)</u>
Goodwill arising on acquisition	<u>-</u>	<u>83</u>
	<u>-</u>	<u>41</u>
Represented by:		
Cash consideration paid	<u>-</u>	<u>41</u>

The subsidiaries acquired during the year 2003 utilised HK\$16 million of the Group's net operating cash flows, paid HK\$3 million in respect of investing activities and paid HK\$34 million in respect of financing activities.

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31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Purchases of subsidiaries *(continued)*

The subsidiaries acquired during the year 2003 contributed HK\$88 million to the Group's turnover, and HK\$5 million to the Group's profit from operations.

The analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Cash consideration paid	–	(41)
Cash and bank balances of acquired subsidiaries	–	39
	<u>–</u>	<u>(2)</u>

(b) Disposal of subsidiaries

Summary of the effects on disposal of subsidiaries

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Net assets disposed of:		
Property, plant and equipment	16	3
Long term investments	–	5
Cash and bank balances	2	21
Short term investments	9	6
Properties held for sale	17	–
Inventories	–	37
Prepayments, deposits and other assets	1	532
Bank overdrafts	–	(5)
Accrued liabilities and other payables	–	(7)
Minority interests	(3)	(20)
	<u>42</u>	<u>572</u>
Gain on disposal of interests in certain subsidiaries	89	30
	<u>131</u>	<u>602</u>
Represented by:		
Cash consideration received	153	–
Short term investments	–	100
Accounts, bills and other receivable	1	499
Release of reserves	(23)	–
Release of negative goodwill	–	3
	<u>131</u>	<u>602</u>

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31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (*continued*)

(b) Disposal of subsidiaries (*continued*)

The subsidiaries disposed of during the year 2003 utilised HK\$510 million of the Group's net operating cash flows.

The subsidiaries disposed of during the year 2004 contributed HK\$16 million (2003: HK\$1,328 million) to the Group's turnover, and utilised HK\$8 million of (2003: contributed HK\$5 million to) the Group's profit from operations.

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

	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Cash consideration received	153	–
Cash and bank balances of disposed subsidiaries	(2)	(21)
Bank overdrafts of disposed subsidiaries	–	5
	<u>151</u>	<u>(16)</u>

(c) Major non-cash transactions

- (i) The 2003 special dividend of HK\$644 million was dealt with by way of a distribution in specie of marketable securities.
- (ii) During the year 2003, sales proceeds of HK\$100 million on disposal of subsidiaries was satisfied by marketable securities at fair value.
- (iii) During the year 2003, consideration for disposal of unlisted short term investment of HK\$39 million was satisfied by marketable securities at fair value.

32. CONTINGENT LIABILITIES

	Group		Company	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
Bills discounted with recourse	<u>2</u>	<u>20</u>	<u>–</u>	<u>–</u>
Guarantee of trade finance banking facilities granted to:				
Subsidiaries	–	–	1,497	1,615
A former associate/an associate	<u>31</u>	<u>39</u>	<u>31</u>	<u>39</u>
	<u>31</u>	<u>39</u>	<u>1,528</u>	<u>1,654</u>

All trade bills discounted at the balance sheet date were subsequently honoured by customers with no losses to the Group.

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33. COMMITMENTS

	2004 HK\$ million	Group 2003 HK\$ million
(a) Capital commitments:		
Contracted for	–	1
Authorised, but not contracted for	–	2
	<u>–</u>	<u>3</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	28	29
Later than one year and not later than five years	18	23
	<u>46</u>	<u>52</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 (2003: 3 years) and rentals are fixed for an average of 3 years (2003: 3 years).</p>		
(c) At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:		
Land and buildings:		
Not later than one year	2	3
Later than one year and not later than five years	1	1
	<u>3</u>	<u>4</u>
<p>Property rental income earned during the year was HK\$3 million (2003: HK\$2 million). The properties are expected to generate rental yields of 5.4% (2003: 3.3%) 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 (2003: JPY10,781 million and RMB82 million)	<u>493</u>	<u>856</u>
To purchase approximately JPY558 million (2003: nil)	<u>42</u>	<u>–</u>

The Company had no significant commitment at 31 December 2004.

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34. 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:

	Group	
	<u>2004</u> HK\$ million	<u>2003</u> HK\$ million
(i) Legal charges over brands, trademarks and patents	582	617
(ii) Legal charges over medium term leasehold land and buildings in Hong Kong	205	210
(iii) Legal charges over investment property	45	46
(iv) Legal charges over plant and machinery	20	35
(v) Pledge of medium term leasehold land and buildings outside Hong Kong	107	110
(vi) Pledge of accounts receivable and bank deposits	20	26
	<u>979</u>	<u>1,044</u>

35. 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 certain percentage of the relevant payroll costs to the schemes, which contribution is matched by employees.

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36. SEGMENT REPORTING

(a) Business segments

The Group comprises of:

Groups	Principal activities
(i) Branded distribution	Trading of audio & video products and shares
(ii) Electronics manufacturing services	Manufacture and trading of electronic and computer products
(iii) Financial services*	Provision of foreign currencies exchange, corporate finance, investment and financial advisory and other services

* For the current year, the business segment of financial services no longer exists since the disposal of the foreign exchange business was completed at the end of October 2003.

	Branded distribution	Electronics manufacturing services	Inter-segment elimination	Unallocated	Consolidated
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
2004					
Turnover:					
Turnover from external customers	3,660	2,762	-		6,422
Inter-segment sales	111	202	(313)		-
Total	<u>3,771</u>	<u>2,964</u>	<u>(313)</u>		<u>6,422</u>
Result:					
Divisional operating results	<u>411</u>	<u>52</u>	<u>-</u>		<u>463</u>
Unallocated corporate expenses					(37)
					<u>426</u>
Gain on disposal of					
- property, plant and equipment	2	21	-	1	24
- long term investments	10	-	-	-	10
- properties held for sale	-	6	-	-	6
Impairment loss recognised					
- long term investments	(4)	(8)	-	-	(12)
Interest income					<u>10</u>
Operating profit					<u>464</u>
Gain on disposal of subsidiaries	78	11	-	-	89
Interest expenses					(32)
Taxation					(11)
Minority interests					<u>41</u>
Profit attributable to shareholders					<u>551</u>
Assets:					
Division assets	<u>5,206</u>	<u>3,816</u>	<u>(2,696)</u>	<u>251</u>	<u>6,577</u>
Liabilities:					
Division liabilities	<u>3,267</u>	<u>1,851</u>	<u>(1,976)</u>	<u>157</u>	<u>3,299</u>
Other information:					
Depreciation and amortisation	<u>102</u>	<u>118</u>		<u>11</u>	<u>231</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>

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31 December 2004

36. SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Continuing operations		Discontinued operations		Consolidated HK\$ million
	Branded distribution HK\$ million	Electronics	Financial services HK\$ million	Inter-segment elimination HK\$ million	
		manufacturing services HK\$ million			
<u>2003</u>					
Turnover:					
Turnover from external customers	2,128	4,089	1,506	-	7,723
Inter-segment sales	48	110	15	(173)	-
Total	<u>2,176</u>	<u>4,199</u>	<u>1,521</u>	<u>(173)</u>	<u>7,723</u>
Result:					
Divisional operating results	<u>318</u>	<u>222</u>	<u>(79)</u>	<u>-</u>	461
Unallocated corporate expenses					(23)
					<u>438</u>
Gain on disposal of					
- long term investments	-	-	10	-	10
- property, plant and equipment	-	1	2	-	3
Impairment loss reversed/(recognised)					
- properties held for sale	-	-	18	-	18
- long term investments	-	-	(10)	-	(10)
- other non-current assets	-	(15)	-	-	(15)
Interest income					<u>5</u>
Operating profit					449
Gain on disposal of subsidiaries	-	-	30	-	30
Interest expenses					(34)
Taxation					2
Minority interests					<u>3</u>
Profit attributable to shareholders					<u>450</u>
Assets:					
Division assets	3,573	3,402	3,320	(3,661)	6,634
Unallocated assets					<u>1</u>
					<u>6,635</u>
Liabilities:					
Division liabilities	2,888	2,134	1,768	(3,661)	3,129
Unallocated liabilities					<u>15</u>
					<u>3,144</u>
Other information:					
Depreciation and amortisation	<u>93</u>	<u>92</u>	<u>44</u>		<u>229</u>
Capital expenditure	<u>33</u>	<u>77</u>	<u>56</u>		<u>166</u>
Allowance/(write back) of doubtful debts	<u>(1)</u>	<u>-</u>	<u>1</u>		<u>-</u>

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36. SEGMENT REPORTING (continued)

(b) Geographical segments

	Turnover		Carrying amount of segment assets		Capital expenditure incurred during the year	
	2004	2003	2004	2003	2004	2003
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Asia	4,194	6,422	5,022	4,916	132	117
North America	1,515	667	90	177	–	–
Europe	713	634	150	150	–	49
Unallocated	–	–	1,315	1,391	–	–
	6,422	7,723	6,577	6,634	132	166

37. 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
			2004	2003	
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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37. 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
			<u>2004</u>	<u>2003</u>	
Directly held: (<i>continued</i>)					
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
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	British Virgin Islands	US\$1	100%	100%	Trading of audio and video products
Sansui Acoustics Research Corporation	British Virgin Islands	US\$2	100%	100%	Brands, trademarks and patents holding
Nakamichi Designs Limited	British Virgin Islands	US\$50,000	100%	100%	Brands, trademarks and patents holding
Nakamichi Enterprises Limited	British Virgin Islands	US\$10,001	100%	100%	Trading of audio and video products

^ Listed on the London Stock Exchange.

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37. 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
			2004	2003	
Indirectly held: (continued)					
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	95%	95%	Trading of audio and video products
Capetronic Display Devices Holdings Limited	British Virgin Islands	US\$100	100%	100%	Investment 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, trademarks and patents 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%	–	Trading of audio and video products
Nakamichi Corporation	Japan	JPY209,640,000	100%	100%	Trading of audio and video products
Tomei Kawa Electronics International Limited	British Virgin Islands	US\$1	100%	100%	Brands, trademarks and patents holding
Nakamichi Corporation Berhad #	Malaysia	RM55,410,180	60%	60%	Manufacture of consumer electronic products

Listed on the Kuala Lumpur Stock Exchange.

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37. 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
			2004	2003	
Indirectly held: (continued)					
Dorset International Overseas Limited	British Virgin Islands	US\$1	100%	100%	Property holding
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
Tomei Technologies Ltd.	British Virgin Islands	US\$100	100%	100%	Investment holding
Tomei Asia Limited	British Virgin Islands	US\$1	100%	100%	Trading of mechadecks and video products
Tomei Shoji Limited	British Virgin Islands	US\$1	100%	100%	Trading of mechadecks and video products
Lafe 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
Sheer Profit Corporation	British Virgin Islands	US\$1	100%	100%	Investment holding
Lafe Technology Limited +	Bermuda	US\$40,000,000	64%	63%	Investment holding
Lafe Computer Magnetics Limited	Hong Kong	HK\$10,000,000	64%	63%	Marketing agent
Lafe Management Services Limited	Hong Kong	HK\$20	64%	63%	Procurement agent

+ Listed on the Singapore Stock Exchange.

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37. 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
			<u>2004</u>	<u>2003</u>	
Indirectly held: (<i>continued</i>)					
Lafe Investment Limited	Hong Kong	HK\$20	64%	63%	Property holding
Lafe Electronic Components (Panyu) Co., Ltd.	The People's Republic of China	HK\$35,000,000	64%	63%	Manufacture of computer magnetic heads
Lafe Peripherals International Limited	British Virgin Islands	US\$100	64%	63%	Trading of computer magnetic heads
Lafe (China) Corporation Limited	British Virgin Islands	US\$100	64%	63%	Manufacture of computer magnetic heads
E-Zone Group Holdings Limited	British Virgin Islands	US\$50,000	100%	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

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the year.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2005.