

## report of the directors

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

### PRINCIPAL ACTIVITIES

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

### SEGMENTED INFORMATION

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

### RESULTS AND DIVIDENDS

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

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

### SUMMARY FINANCIAL INFORMATION

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

### RESULTS

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

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### ASSETS AND LIABILITIES

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

### PROPERTY, PLANT AND EQUIPMENT

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

### INVESTMENT PROPERTIES

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

### SUBSIDIARIES AND ASSOCIATES

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

### SHARE CAPITAL AND SHARE PREMIUM

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

### DISTRIBUTABLE RESERVES

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

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

## **MAJOR CUSTOMERS AND MAJOR SUPPLIERS**

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

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

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

## **DIRECTORS' REMUNERATION**

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

## **DIRECTORS**

The directors of the Company during the year were:

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

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

## **DIRECTORS' INTERESTS IN CONTRACTS**

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

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

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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

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

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### DIRECTORS' INTERESTS IN SHARE CAPITAL

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

#### Long positions in shares:

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

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

### SUBSTANTIAL SHAREHOLDERS

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

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

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

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

**BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS**

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

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

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

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### BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

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

## **CHARGES ON GROUP ASSETS**

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

## **TREASURY POLICIES**

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

## **EMPLOYEES AND REMUNERATION POLICIES**

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

## **PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES**

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

## **SIGNIFICANT INVESTMENTS**

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

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

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### **CONTINGENT LIABILITIES**

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

### **POST BALANCE SHEET EVENTS**

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

### **PRE-EMPTIVE RIGHTS**

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

### **CONNECTED TRANSACTIONS**

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

### **AUDIT COMMITTEE**

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

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

### **CORPORATE GOVERNANCE**

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

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **AUDITORS**

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

On behalf of the Board

**Christopher W. Ho**  
*Chairman*

Hong Kong  
8 May 2006