

# 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

	<b>2004</b> <b>HK\$</b> <b>million</b>	<b>Year ended 31 December</b>			
		<b>2003</b> <b>HK\$</b> <b>million</b>	<b>2002</b> <b>HK\$</b> <b>million</b>	<b>2001</b> <b>HK\$</b> <b>million</b>	<b>2000</b> <b>HK\$</b> <b>million</b>
TURNOVER	<b>6,422</b>	7,723	6,646	7,818	8,309
PROFIT/(LOSS) BEFORE TAX	<b>521</b>	445	305	532	(350)
Tax	<b>(11)</b>	2	(3)	(4)	(13)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>510</b>	447	302	528	(363)
Minority interests	<b>41</b>	3	76	(71)	(218)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS (RESTATED)	<b>551</b>	450	378	457	(581)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (AS PREVIOUSLY REPORTED)					<b>406</b>

### ASSETS AND LIABILITIES

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

# 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:**

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of issued ordinary shares of HK\$0.10 each in the Company held</b>	<b>% of the issued share capital</b>
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
<b>Board of Directors</b>				
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
<b>Independent Directors</b>				
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
<b>Electronics Manufacturing Services Group</b>				
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
<b>Branded Distribution Group</b>				
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
<b>Treasury</b>				
Mrs. Eleanor Crosthwaite	51	Managing Director	19	Treasury
Mr. Tony W. M. Lam	40	Director	13	Banking and treasury
<b>Legal</b>				
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