

# 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.

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## 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

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## 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

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## 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

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## 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

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## 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

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## 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>

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## 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

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## 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	<u>–</u>	<u>(6)</u>
	<u>11</u>	<u>(2)</u>

# notes to financial statements

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## 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
	<b>293</b>	293
Medium term leasehold land and buildings outside Hong Kong:		
At cost	271	279
At 1993 professional valuation	261	281
	<b>532</b>	560
Total cost or valuation	<b>893</b>	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

	<b>Group</b>	
	<u>2004</u> <b>HK\$</b> million	<u>2003</u> <b>HK\$</b> 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>

The carrying amount of investment properties comprises land as follows:

	<b>Group</b>	
	<u>2004</u> <b>HK\$</b> million	<u>2003</u> <b>HK\$</b> 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>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

	<b>Company</b>	
	<u>2004</u> <b>HK\$</b> million	<u>2003</u> <b>HK\$</b> 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
		2004	2003	
GrandeTel Technologies Inc. ("GrandeTel") <sup>+</sup>	Canada	—	42%	Telecommunications

<sup>+</sup> 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.

# notes to financial statements

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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)
At end of year	<u>1,543</u>	<u>1,541</u>
Accumulated amortisation:		
At beginning of year	150	72
Provided for the year	78	78
At end of year	<u>228</u>	<u>150</u>
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
At end of year	<u>149</u>	<u>72</u>
Accumulated amortisation and impairment:		
At beginning of year	36	14
Impairment loss recognised	–	15
Provided for the year	14	7
At end of year	<u>50</u>	<u>36</u>
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.

# notes to financial statements

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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.

# notes to financial statements

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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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	<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
	<hr/>	<hr/>
	<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.

# notes to financial statements

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## 23. BANK LOANS

	Group		Company	
	2004 HK\$ million	2003 HK\$ million	2004 HK\$ million	2003 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>

# notes to financial statements

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

# notes to financial statements

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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:

	Group		
	Accelerated tax depreciation	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>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:

	Group	
	2004 HK\$ million	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).

# notes to financial statements

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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.

# notes to financial statements

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## 29. SHARE PREMIUM

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

## 30. RESERVES

	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
<u>2003</u>						
<b>Group</b>						
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<b>961</b>	<b>(2)*</b>	<b>455#</b>	<b>(231)</b>	<b>910</b>	<b>2,093</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
The reserves are retained as follows:						
Company and subsidiaries	961	(2)	455	(229)	936	2,121
Associates	–	–	–	(2)	(26)	(28)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>961</b>	<b>(2)</b>	<b>455</b>	<b>(231)</b>	<b>910</b>	<b>2,093</b>

# 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.

# notes to financial statements

31 December 2004

## 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
<b>2003</b>						
<b>Company</b>						
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>
<b>2004</b>						
<b>Group</b>						
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<sup>#</sup></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>

<sup>#</sup> 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.

# notes to financial statements

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## 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	-	83
	<u>-</u>	<u>41</u>
Represented by:		
Cash consideration paid	-	41
	<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.

# notes to financial statements

31 December 2004

## 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>

# notes to financial statements

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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.

# notes to financial statements

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## 33. COMMITMENTS

	<b>2004</b> <b>HK\$</b> <b>million</b>	<b>Group</b> <b>2003</b> <b>HK\$</b> <b>million</b>
(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.

# notes to financial statements

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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.

# notes to financial statements

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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 HK\$ million	Electronics manufacturing services HK\$ million	Inter-segment elimination HK\$ million	Unallocated HK\$ million	Consolidated HK\$ million
<b>2004</b>					
<b>Turnover:</b>					
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>
<b>Result:</b>					
Divisional operating results	<u>411</u>	<u>52</u>	<u>-</u>		463
Unallocated corporate expenses					(37)
					426
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					10
Operating profit					464
Gain on disposal of subsidiaries	78	11	-	-	89
Interest expenses					(32)
Taxation					(11)
Minority interests					41
Profit attributable to shareholders					<u>551</u>
<b>Assets:</b>					
Division assets	5,206	3,816	(2,696)	251	<u>6,577</u>
<b>Liabilities:</b>					
Division liabilities	3,267	1,851	(1,976)	157	<u>3,299</u>
<b>Other information:</b>					
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>

# notes to financial statements

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## 36. SEGMENT REPORTING (continued)

### (a) Business segments (continued)

	Continuing operations		Discontinued operations		Consolidated HK\$ million
	Branded distribution HK\$ million	Electronics manufacturing services HK\$ million	Financial services HK\$ million	Inter-segment elimination HK\$ million	
<u>2003</u>					
<b>Turnover:</b>					
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>
<b>Result:</b>					
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>
<b>Assets:</b>					
Division assets	3,573	3,402	3,320	(3,661)	6,634
Unallocated assets					<u>1</u>
					<u>6,635</u>
<b>Liabilities:</b>					
Division liabilities	2,888	2,134	1,768	(3,661)	3,129
Unallocated liabilities					<u>15</u>
					<u>3,144</u>
<b>Other information:</b>					
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>

# notes to financial statements

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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	–	–
	<b>6,422</b>	<b>7,723</b>	<b>6,577</b>	<b>6,634</b>	<b>132</b>	<b>166</b>

## 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
			2004	2003	
Directly held: (continued)					
The Grande Industries Limited	British Virgin Islands	US\$101	100%	100%	Investment holding
The Grande Capital Group Limited	British Virgin Islands	US\$1	100%	100%	Corporate finance and investment holding
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
			2004	2003	
Indirectly held: (continued)					
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.