GRANDE

# THE GRANDE HOLDINGS LIMITED

# 嘉 城 集 團 有 限 公 司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 186)

# INTERIM REPORT 2010

# FINANCIAL HIGHLIGHTS

| | (Unaudited) Six months ended 30 June 2010 | 30 June 2009 |
|---|---|---|
| OPERATING RESULTS: | | |
| Revenue *(HK$ million)* | **1,045** | 1,026 |
| Loss for the period attributable to shareholders of the Company *(HK$ million)* | **(4)** | (26) |
| PER SHARE DATA: | | |
| Basic loss per share *(HK cents)* | **(1)** | (6) |
| Diluted earnings per share *(HK cents)* | **N/A** | N/A |

# INTERIM RESULTS

The Board of directors of The Grande Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010, together with the comparative figures for the corresponding period and selected explanatory notes are as follows:

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | **(Unaudited) Six months ended** | |
|---|---|---|---|
| | | **30 June 2010** | 30 June 2009 |
| | *Notes* | ***HK$ million*** | *HK$ million* |
| REVENUE | 4 | **1,045** | 1,026 |
| Cost of sales | | **(826)** | (904) |
| Gross profit | | **219** | 122 |
| Other income | | **69** | 111 |
| Gain on disposal of subsidiaries | | **3** | 3 |
| Distribution costs | | **(16)** | (23) |
| Administrative expenses | | **(135)** | (151) |
| Other expenses | | **(78)** | (66) |
| Finance costs | | **(46)** | (37) |
| PROFIT/(LOSS) BEFORE TAX | | **16** | (41) |
| Tax (charge)/credit | 5 | **(27)** | 5 |
| LOSS FOR THE PERIOD | 6 | **(11)** | (36) |
| OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAX | | | |
| Deficit on decreases in interests in subsidiaries | | **(7)** | – |
| Exchange differences on translating foreign operations | | **14** | 6 |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | **(4)** | (30) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

| | | (Unaudited) Six months ended | |
|---|---|---|---|
| | | **30 June 2010** | 30 June 2009 |
| | *Notes* | ***HK$ million*** | *HK$ million* |
| LOSS FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Shareholders of the Company | | (4) | (26) |
| Non-controlling interests | | (7) | (10) |
| | | **(11)** | (36) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Shareholders of the Company | | (4) | (18) |
| Non-controlling interests | | – | (12) |
| | | (4) | (30) |
| | | ***HK cents*** | *HK cents* |
| LOSS PER SHARE | 8 | | |
| Basic | | (1) | (6) |
| Diluted | | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | (Unaudited) As at 30 June 2010 HK$ million | (Audited) As at 31 December 2009 HK$ million |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | **106** | 213 |
| Investment properties | | **41** | 40 |
| Available-for-sale investments | 10 | **48** | 48 |
| Deferred tax assets | | **68** | 84 |
| Brands and trademarks | 11 | **1,684** | 1,677 |
| Other assets | | **7** | 8 |
| Goodwill | 12 | **529** | 530 |
| | | **2,483** | 2,600 |
| CURRENT ASSETS | | | |
| Inventories | 13 | **233** | 179 |
| Accounts and bills receivables | 14 | **297** | 141 |
| Amounts due from related companies | 15 | **12** | 2 |
| Prepayments, deposits and other receivables | 16 | **415** | 425 |
| Tax recoverable | | **1** | 2 |
| Held-for-trading investments | 17 | **7** | 9 |
| Pledged deposits with banks | | **26** | 27 |
| Cash and bank balances | | **87** | 315 |
| | | **1,078** | 1,100 |
| CURRENT LIABILITIES | | | |
| Accounts and bills payable | 18 | **312** | 189 |
| Amounts due to related companies | 19 | **17** | 23 |
| Accruals and other liabilities | 20, 29 | **369** | 432 |
| Tax liabilities | | **10** | 7 |
| Bank loans | 21, 29 | **443** | 499 |
| Obligations under finance leases | 22, 29 | **16** | 15 |
| Derivative financial instruments | 23 | **111** | 30 |
| | | **1,278** | 1,195 |
| Settlement obligations of court proceedings | 24 | **748** | 890 |
| | | **2,026** | 2,085 |
| NET CURRENT LIABILITIES | | **(948)** | (985) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,535** | 1,615 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

| | Notes | (Unaudited) As at 30 June 2010 HK$ million | (Audited) As at 31 December 2009 HK$ million |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Debenture | 25 | **53** | 53 |
| Derivative financial instruments | 23 | – | 61 |
| Amounts due to related companies | 19 | **621** | 535 |
| Accruals and other liabilities | 20 | **69** | 84 |
| | | **743** | 733 |
| NET ASSETS | | **792** | 882 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | **46** | 46 |
| Share premium | | **1,173** | 1,173 |
| Reserves | | **(1,119)** | (1,115) |
| EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS | | **100** | 104 |
| NON-CONTROLLING INTERESTS | | **692** | 778 |
| TOTAL EQUITY | | **792** | 882 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital HK$ million | Share premium HK$ million | Contributed reserve HK$ million | Exchange fluctuation reserve HK$ million | Other reserves HK$ million | Retained deficits HK$ million | Equity attributable to the Company's shareholders HK$ million | Non-controlling interests HK$ million | (Unaudited) Total equity HK$ million |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | **46** | **1,173** | **193** | **(59)** | **23** | **(1,272)** | **104** | **778** | **882** |
| Loss for the period | – | – | – | – | – | (4) | (4) | (7) | (11) |
| Other comprehensive income: | | | | | | | | | |
| Deficit on decreases in interests in subsidiaries | – | – | – | – | (7) | – | (7) | – | (7) |
| Exchange gain on translating foreign operations | – | – | – | 7 | – | – | 7 | 7 | 14 |
| Total comprehensive income/(loss) for the period | – | – | – | 7 | (7) | (4) | (4) | – | (4) |
| Decreases in interests in subsidiaries | – | – | – | – | – | – | – | 15 | 15 |
| Dividend paid | – | – | – | – | – | – | – | (101) | (101) |
| **At 30 June 2010** | **46** | **1,173** | **193** | **(52)** | **16** | **(1,276)** | **100** | **692** | **792** |
| At 1 January 2009 | 46 | 1,173 | 193 | (72) | 23 | (6) | 1,357 | 771 | 2,128 |
| Loss for the period | – | – | – | – | – | (26) | (26) | (10) | (36) |
| Other comprehensive income: | | | | | | | | | |
| Exchange gain/(loss) on translating foreign operations | – | – | – | 8 | – | – | 8 | (2) | 6 |
| Total comprehensive income/(loss) for the period | – | – | – | 8 | – | (26) | (18) | (12) | (30) |
| At 30 June 2009 | 46 | 1,173 | 193 | (64) | 23 | (32) | 1,339 | 759 | 2,098 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | (Unaudited) Six months ended | |
|---|---|---|
| | **30 June 2010** | 30 June 2009 |
| | ***HK$ million*** | *HK$ million* |
| Net cash (used in)/generated from operating activities | **(144)** | 464 |
| Net cash used in investing activities | – | (42) |
| Net cash used in financing activities | **(84)** | (360) |
| Net (decrease)/increase in cash and cash equivalents | **(228)** | 62 |
| Cash and cash equivalents at 1 January | **315** | 132 |
| Cash and cash equivalents at 30 June | **87** | 194 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and bank balances | **87** | 194 |

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

*30 June 2010*

## 1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These interim consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

As at 30 June 2010, the Group had net current liabilities of HK$200 million, excluding the outstanding settlement obligations of HK$748 million in respect of certain court proceedings as detailed in note 24. On 23 April 2010, the Company's ultimate holding company, Accolade Inc. ("Accolade") has confirmed its commitment to assume the entire outstanding settlement obligations as of 31 December 2009 from the Company.

The Company is in ongoing negotiation with certain creditors on refinancing or rescheduling the payment terms of certain payables, bank loans and obligations under finance leases of which an aggregate balance of HK$328 million was due for payment prior to the end of the reporting period. Accolade has confirmed its intention to provide continuous financial support in funding the working capital requirements of the Company. The directors consider that Accolade has the financial capability to provide its financial support to the Company. Accordingly, the directors continue to adopt the going concern basis in preparing these condensed interim financial statements.

## 2. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those adopted in preparing the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (new "HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2010:

| | |
|---|---|
| HKFRS 1 (Revised) | First-time adoption of Hong Kong Financial Reporting Standards |
| HKFRS 2 (Amendment) | Group cash-settled share-based payment transactions |
| HKFRS 3 (Revised) | Business combinations |
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs (2008) |
| HKFRSs (Amendments) | Improvements to HKFRSs (2009) |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 39 (Amendment) | Eligible hedged items |
| HK(IFRIC) – Int 17 | Distributions of non-cash assets to owners |

## 2. ACCOUNTING POLICIES (continued)

The Group has assessed the impact of the adoption of the new HKFRSs above and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, except for the application of the following new HKFRSs:

HKFRS 3 (Revised), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements. These include the following changes in accounting policies:

– Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within twelve months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

In accordance with the transitional provisions in HKFRS 3 (Revised), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

The application of HKAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in the HKFRSs, for acquisition of additional interests in subsidiaries are not business, the difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interests acquired is added to or deducted from the carrying values of the relevant assets, where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

## 2. ACCOUNTING POLICIES (continued)

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the partial disposal of interests in certain subsidiaries during the period, the impact of the change in accounting policy has been that the deficit of HK$7 million between the consideration received and the carrying amount of the share of net assets disposed of has been recognised directly in equity ("other reserve"). Had the previous accounting policy been applied, this amount would have been recognised in profit or loss.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2010, and is in the process of assessing their impact on future accounting periods:

| | | |
|---|---|---|
| HKFRS 1 (Amendment) | (ii) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters |
| HKFRS 9 | (iv) | Financial instruments |
| HKFRSs (Amendments) | (v) | Improvements to HKFRSs (2010) |
| HKAS 24 (Revised) | (iii) | Related party disclosures |
| HKAS 32 (Amendment) | (i) | Classification of right issues |
| HK(IFRIC) – Int 14 (Amendment) | (iii) | Prepayments of a minimum funding requirement |
| HK(IFRIC) – Int 19 | (ii) | Extinguishing financial liabilities with equity instruments |

(i) Effective for annual periods beginning on or after 1 February 2010.
(ii) Effective for annual periods beginning on or after 1 July 2010.
(iii) Effective for annual periods beginning on or after 1 January 2011.
(iv) Effective for annual periods beginning on or after 1 January 2013.
(v) Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

## 3. SEGMENT INFORMATION

The Group currently organises its operations into the following reportable operating segments:

| Operating segments | Principal activities |
|---|---|
| Branded distribution | Trading of audio and video products and licensing business |
| Emerson | – Comprising a group listed on the NYSE Alternext US |
| Distribution and licensing | – Comprising the brands and trademarks, namely, Akai, Sansui and Nakamichi |
| Electronics manufacturing services | Manufacture and trading of electronic products and subcontracting service |

(a) **Unaudited revenue and results of the Group by operating segments:**
*For the six months ended 30 June 2010:*

| | Branded distribution | | | | | | |
|---|---|---|---|---|---|---|---|
| | Emerson *HK$ million* | Distribution and licensing *HK$ million* | Sub-total *HK$ million* | Electronics manufacturing services *HK$ million* | Inter-segment elimination *HK$ million* | Unallocated *HK$ million* | Consolidated *HK$ million* |
| **Revenue** | | | | | | | |
| Sales of goods and provision of services to external customers | 906 | 8 | 914 | 65 | – | – | 979 |
| Licensing income from external customers | 28 | 38 | 66 | – | – | – | 66 |
| Total revenue | 934 | 46 | 980 | 65 | – | – | 1,045 |
| **Results** | | | | | | | |
| Segment results | 90 | 11 | 101 | (9) | | | 92 |
| **Unallocated corporate expenses** | | | | | | (24) | (24) |
| | | | | | | (24) | 68 |
| Loss on disposal of property, plant and equipment | (3) | (40) | (43) | – | | – | (43) |
| Impairment loss recognised in respect of property, plant and equipment | – | – | – | (4) | | – | (4) |
| Gain on disposal of subsidiaries | | | | | | 3 | 3 |
| Allowance for doubtful debts written back | | | | | | 4 | 4 |
| Provision for legal claims written back | | | | | | 52 | 52 |
| Loss on financial derivatives | | | | | | (19) | (19) |
| Interest income | | | | | | 1 | 1 |
| Interest expense | | | | | | (46) | (46) |
| Tax charge | | | | | | (27) | (27) |
| Loss for the period | | | | | | (56) | (11) |

## 3. SEGMENT INFORMATION (continued)

### (a) Unaudited revenue and results of the Group by operating segments: (continued)

The segment information reported for the prior period have been restated to conform with the current period measurement of segment results. Certain income and expenses in relation to the available-for-sale investments and held-for-trading investments have been excluded from the distribution and licensing segment so as to reflect a fairer measurement of the results of this segment.

*For the six months ended 30 June 2009:*

| | Branded distribution | | | | | | |
|---|---|---|---|---|---|---|---|
| | Emerson | Distribution and licensing | Sub-total | Electronics manufacturing services | Inter-segment elimination | Unallocated | (Restated) Consolidated |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| **Revenue** | | | | | | | |
| Sales of goods and provision of services to external customers | 756 | 15 | 771 | 198 | – | | 969 |
| Licensing income from external customers | 24 | 33 | 57 | – | – | | 57 |
| Inter-segment sales | – | – | – | 28 | (28) | | – |
| Total revenue | 780 | 48 | 828 | 226 | (28) | | 1,026 |
| **Results** | | | | | | | |
| Segment results | (15) | 11 | (4) | 25 | | | 21 |
| Unallocated net corporate income | | | | | | 21 | 21 |
| | | | | | | 21 | 42 |
| (Loss)/gain on disposal of property, plant and equipment | (1) | – | (1) | 1 | | 1 | 1 |
| Gain on disposal of subsidiaries | | | | | | 3 | 3 |
| Change in fair value of available-for-sale investments | | | | | | (2) | (2) |
| Change in fair value of exchangeable bonds | | | | | | 2 | 2 |
| Loss on financial derivatives | | | | | | (54) | (54) |
| Interest income | | | | | | 4 | 4 |
| Interest expense | | | | | | (37) | (37) |
| Tax credit | | | | | | 5 | 5 |
| Loss for the period | | | | | | (57) | (36) |

## 3. SEGMENT INFORMATION (continued)

### (b) Geographical segments:

| | (Unaudited) Six months ended 30 June 2010 | 30 June 2009 | (Unaudited) 30 June 2010 | (Restated) 31 December 2009 |
|---|---|---|---|---|
| | Revenue | | Carrying amount of segment assets | |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| Asia | **107** | 239 | **1,365** | 1,491 |
| North America | **936** | 783 | **421** | 418 |
| Europe | **2** | 4 | **–** | 1 |
| Unallocated | **–** | – | **1,684** | 1,677 |
| | **1,045** | 1,026 | **3,470** | 3,587 |

## 4. REVENUE

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, sub-contracting service income and licensing income, but excludes intra-group transactions.

An analysis of the Group's revenue by principal activity for the period is as follows:

| | (Unaudited) Six months ended 30 June 2010 | 30 June 2009 |
|---|---|---|
| | *HK$ million* | *HK$ million* |
| Sales of goods and service income | **979** | 969 |
| Licensing income | **66** | 57 |
| | **1,045** | 1,026 |

## 5. TAX (CHARGE)/CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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.

| | **(Unaudited) Six months ended** | |
|---|---|---|
| | **30 June 2010** | 30 June 2009 |
| | ***HK$ million*** | *HK$ million* |
| The tax (charge)/credit comprises: | | |
| Current period provision | | |
| Hong Kong | (2) | – |
| Overseas | (22) | 5 |
| Over/(under) provision in prior period | | |
| Overseas | 13 | (6) |
| Deferred tax | | |
| Hong Kong | (2) | – |
| Overseas | (14) | 6 |
| | (27) | 5 |

## 6. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging/(crediting):

| | (Unaudited) Six months ended 30 June 2010 *HK$ million* | 30 June 2009 *HK$ million* |
|---|---|---|
| Depreciation of property, plant and equipment: | | |
| Owned assets | **21** | 26 |
| Leased assets | **7** | 7 |
| Operating lease rentals: | | |
| Land and buildings | **13** | 15 |
| Property, plant and equipment | **2** | – |
| Finance costs: | | |
| Interest on bank overdrafts and loans wholly repayable within five years | **11** | 16 |
| Interest on obligations under finance leases | **–** | 1 |
| Interest on debenture | **3** | 4 |
| Interest on amounts due to related companies | **14** | 14 |
| Interest on settlement obligations of court proceedings | **11** | – |
| Others | **7** | 2 |
| Auditors' remuneration | **5** | 5 |
| Amortisation of other assets | **1** | 1 |
| Staff costs: | | |
| Salaries and other benefits | **51** | 64 |
| Retirement benefit costs | **6** | 11 |
| Allowance for doubtful debts written back | **(4)** | (11) |
| Provision for legal claims written back | **(52)** | – |
| Cost of inventories recognised as expenses | **773** | 872 |
| Loss/(gain) on disposal of property, plant and equipment | **43** | (1) |
| Impairment loss recognised in respect of property, plant and equipment | **4** | – |
| Net foreign exchange loss | **7** | 6 |
| Change in fair value of available-for-sale investments | **–** | 2 |
| Change in fair value of exchangeable bonds | **–** | (2) |
| Loss on financial derivatives | **19** | 54 |
| Change in fair value of held-for-trading investments | **–** | (31) |
| Interest income | **(1)** | (4) |

## 7. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of material transactions between the Group and other related companies for the period are disclosed below:

| | (Unaudited) Six months ended | |
|---|---|---|
| | **30 June 2010** | 30 June 2009 |
| | ***HK$ million*** | *HK$ million* |
| Sales of car parks | – | 1 |
| Service fees income | **3** | 2 |
| Rental expenses | **2** | 1 |
| Interest expenses | **14** | 14 |

## 8. LOSS PER SHARE

The calculation of loss per share is based on loss for the period attributable to shareholders of the Company of HK$4 million (2009: HK$26 million) and on the weighted average of approximately 460.2 million ordinary shares (2009: 460.2 million ordinary shares) in issue during the period.

Diluted loss per share has not been presented as the Company did not have any potential ordinary shares during the above two periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | **(Unaudited)** | (Audited) |
|---|---|---|
| | **30 June 2010** | 31 December 2009 |
| | ***HK$ million*** | *HK$ million* |
| Carrying value at beginning of year | **213** | 321 |
| Foreign currency adjustment | **1** | (1) |
| Additions | **2** | 25 |
| Impairment | **(4)** | (14) |
| Disposal of subsidiaries | **(3)** | (2) |
| Disposals | **(75)** | (49) |
| Depreciation provided during the period/year | **(28)** | (67) |
| Carrying value at the end of reporting period | **106** | 213 |

## 10. AVAILABLE-FOR-SALE INVESTMENTS

The amounts represent unlisted investments at cost less impairment losses.

## 11. BRANDS AND TRADEMARKS

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| At beginning of year | **1,677** | 1,774 |
| Foreign currency adjustment | 7 | 1 |
| Additions | – | 12 |
| Impairment | – | (110) |
| At the end of reporting period | **1,684** | 1,677 |

## 12. GOODWILL

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| At beginning of year | **530** | 585 |
| Impairment | – | (55) |
| Decreases in interests in subsidiaries | (1) | – |
| At the end of reporting period | **529** | 530 |

Included in the goodwill at 30 June 2010 was an amount of HK$516 million (2009: HK$516 million) attributable to the cash-generating unit comprising the Group's interest in Sansui Electric Co., Ltd. ("SEC"), a 40% owned subsidiary of the Group, Sansui's global licensing and distribution operations and the Sansui trademarks. These assets and operations form an integrated operating unit of the Group since the revenues and profits generated from them are heavily dependent upon each other.

## 13. INVENTORIES

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| Raw materials | 4 | 28 |
| Work in progress | – | 10 |
| Finished goods | **229** | 141 |
| | **233** | 179 |

Parts of the raw materials amounted to HK$4 million (2009: HK$28 million) and finished goods amounted to HK$229 million (2009: HK$141 million) were stated at net realisable values.

## 14. ACCOUNTS AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

| | (Unaudited) | (Audited) |
|---|---|---|
| | 30 June 2010 | 31 December 2009 |
| | *HK$ million* | *HK$ million* |
| Gross amount | 350 | 232 |
| Less : Allowance for doubtful debts | (53) | (91) |
| Net amount | 297 | 141 |

The carrying amount of accounts and bills receivables approximates their fair value.

The aged analysis of accounts and bills receivables (net of allowance for doubtful debts) is as follows :

| | | |
|---|---|---|
| 0 - 3 months | 295 | 138 |
| 3 - 6 months | 1 | 1 |
| Over 6 months | 1 | 2 |
| | 297 | 141 |

In addition, some of the unimpaired accounts receivables are past due as at the reporting date. The aged analysis of accounts and bills receivables past due but not impaired is as follows :

| | | |
|---|---|---|
| 0 - 3 months | 20 | 37 |
| 3 - 6 months | 1 | 2 |
| Over 6 months | 1 | 1 |
| | 22 | 40 |

Before accepting any new customer, the management would assess the potential customer's credit quality with reference to the customer's reputation and market standing and defines the credit limits accordingly. Continuity of the credit limits to the customers is reviewed by management as and when necessary. Based on the aforesaid assessment, the above past due but not impaired accounts and bills receivables are still considered to be fully recoverable.

## 15. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| Prepayments | **6** | 8 |
| Deposits | **2** | 18 |
| Other receivables | **407** | 399 |
| | **415** | 425 |

Included in the other receivables was an amount of HK$382 million (2009: HK$378 million) due from certain former associates. The Group disposed of its entire shareholding interests in these associates in May 2008. Although the receivable is repayable on demand, the ultimate settlement of the amount due is dependent on the disposal of land held by the former associates in Zhongshan.

## 17. HELD-FOR-TRADING INVESTMENTS

The amounts represent unlisted investments stated at fair value.

## 18. ACCOUNTS AND BILLS PAYABLE

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

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| 0 – 3 months | **276** | 163 |
| 3 – 6 months | **1** | 1 |
| Over 6 months | **35** | 25 |
| | **312** | 189 |

## 19. AMOUNTS DUE TO RELATED COMPANIES

| | **(Unaudited)** **30 June 2010** ***HK$ million*** | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| Current portion | **17** | 23 |
| Non-current portion | **621** | 535 |
| | **638** | 558 |

Included in the amounts due to related companies was an amount of HK$633 million (2009: HK$545 million) which is unsecured, bearing interest at the Hong Kong dollar prime rate plus 0.25% per annum and repayable on demand except for an amount of HK$621 million (2009: HK$535 million) which is subject to repayment only after one year from the end of the reporting period. The remaining balance is unsecured, non-interest bearing and repayable on demand.

## 20. ACCRUALS AND OTHER LIABILITIES

| | **(Unaudited)** **30 June 2010** | | (Audited) 31 December 2009 | |
|---|---|---|---|---|
| | **Current** ***HK$ million*** | **Non-current** ***HK$ million*** | Current *HK$ million* | Non-current *HK$ million* |
| Accrued expenses and provisions | **169** | **34** | 170 | 35 |
| Other payables | **173** | **35** | 221 | 49 |
| Other borrowings | **27** | **–** | 41 | – |
| | **369** | **69** | 432 | 84 |

Included in the other payables were amounts in aggregate of HK$97.3 million (2009: HK$121.1 million) which were secured by certain shares of SEC and Emerson Radio Corp. owned by the Group.

The other borrowings of HK$27 million (2009: HK$41 million) were fully repaid subsequent to the end of the reporting period.

## 21. BANK LOANS

| | (Unaudited) | (Audited) |
| --- | --- | --- |
| | **30 June 2010** | 31 December 2009 |
| | ***HK$ million*** | *HK$ million* |
| Trust receipt loans | **231** | 264 |
| Other bank loans | **212** | 235 |
| | **443** | 499 |

The trust receipt loans and other bank loans are secured by corporate guarantees given by the Company and/or personal guarantees given by the Chairman of the Company and certain investment properties of the Group.

## 22. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are secured by certain plant and machineries of which the carrying value at the end of the reporting period was HK$16 million (2009: HK$23 million).

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

| | (Unaudited) | (Audited) |
| --- | --- | --- |
| | **30 June 2010** | 31 December 2009 |
| | ***HK$ million*** | *HK$ million* |
| Held for trading or not qualifying as hedges: | | |
| Interest rate swaps | **111** | 91 |
| Less: Portion classified as current liabilities | **(111)** | (30) |
| Portion classified as non-current liabilities | **–** | 61 |

## 24. SETTLEMENT OBLIGATIONS OF COURT PROCEEDINGS

On 3 October 2009, the Company and all other defendants of the court proceedings in HCCL No. 37 of 2005 and HCCL No. 40 of 2005 entered into a settlement agreement (the "Settlement Agreement") with the plaintiffs, whereby the Company, without admission of liability, took up an amount of HK$969 million plus interest as its maximum obligations payable to the plaintiffs within twelve months from the date of the Settlement Agreement. The entire settlement amount was accrued and expensed in 2009. As at 30 June 2010, the outstanding balance of the settlement obligations was HK$748 million (2009: HK$890 million).

On 23 April 2010, Accolade has confirmed its commitment to assume the entire outstanding settlement obligations as of 31 December 2009 from the Company.

## 25. DEBENTURE

On 10 December 2008, the Company issued a principal amount of US$27.6 million (equivalent to HK$214 million) Debenture ("Debenture") at par value to an independent third party. The Debenture shall be redeemed by the Company on or before the extended maturity date of 5 July 2011. For the period from the first anniversary of the issue date of the Debenture until the maturity date, interest shall be accrued on the outstanding principal amount under the Debenture at 12% per annum.

The principal outstanding at the end of the reporting period was approximately US$6.8 million (2009: US$6.8 million).

## 26. SHARE CAPITAL

| | **(Unaudited)**<br>**30 June 2010**<br>***HK$ million*** | (Audited)<br>31 December 2009<br>*HK$ million* |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK$0.10 each | **100** | 100 |
| Issued and fully paid: | | |
| 460,227,320 ordinary shares of HK$0.10 each | **46** | 46 |

## 27. LEGAL PROCEEDINGS

In 2005, certain plaintiffs obtained a default judgment against a defunct entity, GrandeTel Technologies, Inc., which was an associated company of the Group before its disposal in 2004, for approximately US$37 million in the United States of America. In December 2006, an action was filed by these plaintiffs claiming that the Company should be responsible for the amount of the default judgment. The case has been pending since December 2006. There has been significant written and deposition discovery. Trial is set for September 2010. The Company is aggressively defending this action. The directors are of the opinion that it is difficult to forecast the probable outcome at this time.

## 28. OPERATING LEASE COMMITMENTS

| | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|
| The Group's future minimum lease payments under non-cancellable operating leases are as follows: | | |
| Land and buildings: | | |
| Not later than one year | **12** | 23 |
| Later than one year and not later than five years | **39** | 43 |
| Later than five years | **1** | 1 |
| | **52** | 67 |
| Others: | | |
| Not later than one year | **1** | 1 |

## 29. BANKING AND OTHER BORROWING FACILITIES

Certain banking and other borrowing facilities available to the Group are secured by assets for which the aggregate carrying values are as follows:

| | | (Unaudited) 30 June 2010 *HK$ million* | (Audited) 31 December 2009 *HK$ million* |
|---|---|---|---|
| (a) | Legal charges over brands and trademarks, account receivables, inventories and bank balances | **601** | 572 |
| (b) | Legal charges over available-for-sale investments | **47** | 47 |
| (c) | Legal charges over plant and machineries | **19** | 30 |
| (d) | Legal charges over freehold buildings outside Hong Kong | **20** | 20 |
| (e) | Pledge of brands and trademarks | **605** | 602 |
| (f) | Pledge of freehold buildings outside Hong Kong | **–** | 71 |
| (g) | Pledge of investment properties | **40** | 39 |
| (h) | Pledge of marketable securities | **313** | 225 |
| (i) | Pledge of bank deposits | **26** | 27 |
| | | **1,671** | 1,633 |

## 30. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board of directors of the Company on 26 August 2010.

# DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2010 (2009: nil).

# BUSINESS REVIEW AND PROSPECTS

The revenue of the Group for the six months ended 30 June 2010 ("current period") was HK$1,045 million as compared to HK$1,026 million for 2009 ("corresponding period"). The Group recorded an unaudited net loss attributable to shareholders of HK$4 million for the current period, as compared to a loss of HK$26 million for the corresponding period.

The core operating segments of the Group comprise the Branded Distribution Division and the Electronics Manufacturing Services Division.

# THE BRANDED DISTRIBUTION DIVISION

The Division comprises the Emerson operations and the Distribution and Licensing operations for Akai, Sansui and Nakamichi brands.

**Emerson**

The trade name "Emerson" dates back to 1912 and is one of the oldest and most well respected brand in the consumer electronics industry. Emerson has been focusing on offering a broad variety of current and new consumer electronics products and household appliances at low to medium-priced levels to customers.

Emerson's revenue for the current period was HK$934 million as compared to HK$780 million for the corresponding period. It recorded an operating profit of HK$90 million for the current period as compared to a loss of HK$15 million for the corresponding period. The improvement in operating results was mainly attributable to the Group's initiatives to make timely response to the changing consumer demands and implementation of proactive strategies to control costs. Emerson has also entered into distribution and license agreements with third party licensees that allow the licensees to sell various products bearing the Emerson trademarks into defined geographic areas. Such activities have had and will continue to have a positive impact on the operating results by generating income with minimal incremental costs and without any working capital requirements.

**Distribution and Licensing**

This segment has the responsibility of managing the global licensing operations of Akai, Sansui and Nakamichi brands. The Group's strategy is to qualify and appoint exclusive licensees for each brand in different geographical regions, granting them the rights to source, market, promote and distribute approved branded products with their own resources, expertise and knowledge in the domestic markets.

The revenue of this segment was HK$46 million for the current period as compared to HK$48 million for the corresponding period. The operating profit for the current period was HK$11 million which comprised mainly the net licensing income received from the licensees, as compared to a profit of HK$11 million for the corresponding period. Despite the consumer electronics markets remain uncertain, the current mode of licensing operations for the Akai, Sansui and Nakamichi brands has been contributing stable and regular income to the Group.

## THE ELECTRONICS MANUFACTURING SERVICES DIVISION

The Electronics Manufacturing Services Division ("EMS") provides OEM manufacturing services including high precision engineering contract services with the state-of-the-art Surface Mount Technology machines in its PRC plants to both the overseas and domestic customers.

The EMS revenue for the current period was HK$65 million which comprised principally the sub-contracting service fees. The revenue for the corresponding period was HK$198 million which comprised principally sales revenue of finished products. The substantial decrease in revenue was attributable to the shift of EMS's business focus from the manufacture of finished products to the provision of sub-contracting services. The EMS operating loss for the current period was HK$9 million as compared to a profit of HK$25 million for the corresponding period. The deterioration of the EMS results was due to the inflation of the operating costs in the PRC and the appreciations of the Renminbi Yuan, the principal currency for all the major costs and expenses while the revenue is earned mainly in the US dollars.

# LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had total assets of HK$3,561 million which were financed by total equity of HK$792 million including non-controlling interests of HK$692 million and total liabilities of HK$2,769 million. The Group had a current ratio of approximately 0.53 as compared to that of approximately 0.53 at 31 December 2009.

As at 30 June 2010, the Group had HK$113 million cash and bank balances. The Group's working capital requirements were mainly financed by internal resources, borrowings from related companies and short-term borrowings which were charged by banks at fixed and floating interest rates. As at 30 June 2010, the Group had HK$443 million short-term bank borrowings.

The Group had inventories of approximately HK$233 million as at 30 June 2010 representing an increase of HK$54 million as compared to that at 31 December 2009.

As at 30 June 2010, the Group's gearing ratio was 2.35 which is calculated based on the Group's net borrowings of HK$1,863 million (calculated as total interest-bearing borrowings less cash and bank balances) divided by the total equity of HK$792 million.

As at 30 June 2010, the Group had net current liabilities of HK$200 million, excluding the outstanding settlement obligations of HK$748 million in respect of certain court proceedings as detailed in note 24 to the condensed interim financial statements. On 23 April 2010, Accolade has confirmed its commitment to assume the entire outstanding settlement obligations as of 31 December 2009 from the Company.

The Company is in ongoing negotiation with certain creditors on refinancing or rescheduling the payment terms of certain payables, bank loans and obligations under finance leases of which an aggregate balance of HK$328 million was due for payment prior to the end of the reporting period. Accolade has confirmed its intention to provide continuous financial support in funding the working capital requirements of the Company. The directors consider that Accolade has the financial capability to provide its financial support to the Company. Accordingly, the directors continue to adopt the going concern basis in preparing these condensed interim financial statements. As at 30 June 2010, Accolade had through its subsidiary provided HK$633 million to the Group and out of which HK$621 million is subject to repayment only after one year from the end of the reporting period.

# CHARGES ON GROUP ASSETS

As at 30 June 2010, certain of the Group's assets with a total carrying value of approximately HK$1,671 million were pledged to banks to secure banking and other borrowing facilities granted to the Group. Details are set out in note 29 to the condensed interim financial statements.

# LEGAL PROCEEDINGS

Details of the legal proceedings of the Group are set out in note 27 to the condensed interim financial statements.

# TREASURY POLICIES

The Group's major borrowings are in US dollars, Renminbi Yuan and HK dollars. All borrowings are based on fixed rates or best lending rates of the underlying currencies. The Group's revenues are mainly in US dollars and major borrowings and payments are in either US dollars, Renminbi Yuan or HK dollars. The Group is exposed to currency risk exposure resulted from the fluctuations of Renminbi Yuan against the US dollars and HK dollars. 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 30 June 2010 was approximately 2,000. The Group remunerated its employees mainly based on industry practice, individual's performance and experience. Apart from the basic remuneration, a discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as to an individual's performance. Other benefits include medical and retirement schemes.

# DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

# DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2010, 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 they were 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and HKSE were as follows:

**Long positions in shares:**

| Name of 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 ("Mr. Ho") | Beneficiary of a discretionary trust | 321,599,822* | 69.87% |
| Mr. Adrian C. C. Ma | Beneficial owner | 78,000 | 0.02% |

* Mr. Christopher W. Ho is deemed to have interests in these shares as he is one of the beneficiaries of a discretionary trust which owns the entire issued share capital of The Ho Family Trust Limited that owns the entire issued share capital of Airwave Capital Limited, which in turn through its wholly owned subsidiary Barrican Investments Corporation, indirectly owns 321,599,822 ordinary shares in the Company.

# SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, the following persons (other than the directors or chief executives of the Company) had, or was 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 was directly or indirectly, interested in 10% 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 |
|---|---|---|---|
| Ms. Rosy L. S. Yu | Interest as Mr. Ho's spouse | 321,599,822* | 69.87% |
| Barrican Investments Corporation | Beneficial owner | 321,599,822# | 69.87% |
| Accolade Inc. | Trustee | 321,599,822# | 69.87% |

* Ms. Rosy L. S. Yu is deemed to have interests in these shares by virtue of being the spouse to Mr. Christopher W. Ho.

# Accolade Inc. is deemed to have interests in these shares as the trustee to the discretionary trust which owns the entire issued share capital of The Ho Family Trust Limited that owns the entire issued share capital of Airwave Capital Limited, which in turn through its wholly owned subsidiary, Barrican Investments Corporation, indirectly owns 321,599,822 ordinary shares in the Company.

Save as disclosed above, as at 30 June 2010, none of the directors knew of any person (other than the directors or chief executives of the Company) who had, or was 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 was directly or indirectly, interested in 10% 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.

# PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

# CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the period under review, except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. Currently, non-executive directors are not appointed for a specific term. However, all directors are subject to retirement by rotation at least once every three years at each annual general meeting pursuant to the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

# MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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. Having made specific enquiry to the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2010.

# AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters related to the preparation of the unaudited interim financial statements for the six months ended 30 June 2010.

On behalf of the Board
**Christopher W. Ho**
*Chairman*

Hong Kong, 26 August 2010