

GRANDE

THE GRANDE HOLDINGS LIMITED

嘉城集團有限公司

(Incorporated in Bermuda with limited liability)

INTERIM REPORT

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FINANCIAL HIGHLIGHTS

	Six months ended	
	30 June 2004	30 June 2003
	(Unaudited)	(Unaudited)
OPERATING RESULTS:		
Turnover (<i>HK\$ million</i>)	2,891	3,759
Operating profit (<i>HK\$ million</i>)	191	160
Profit attributable to shareholders (<i>HK\$ million</i>)	<u>172</u>	<u>141</u>
PER SHARE DATA:		
Basic earnings per share (<i>HK cents</i>)	37	35
Interim dividend per share (<i>HK cents</i>)	<u>11</u>	<u>10</u>

INTERIM RESULTS

The Board of Directors of The Grande Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004, together with the comparative figures for the corresponding period and selected explanatory notes are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
	<i>Notes</i>		
TURNOVER	2	2,891	3,759
Cost of sales		<u>(2,436)</u>	<u>(3,362)</u>
Gross profit		455	397
Other operating income		65	56
Loss on disposal of subsidiaries		(4)	–
Distribution costs		(54)	(62)
Administrative expenses		(180)	(182)
Other operating expenses		<u>(91)</u>	<u>(49)</u>
PROFIT FROM OPERATING ACTIVITIES		191	160
Finance costs		<u>(13)</u>	<u>(19)</u>
PROFIT BEFORE TAX	4	178	141
Tax	5	<u>(1)</u>	<u>1</u>
PROFIT BEFORE MINORITY INTERESTS		177	142
Minority interests		<u>(5)</u>	<u>(1)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>172</u>	<u>141</u>
DIVIDENDS	6	<u>601</u>	<u>44</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE	7		
Basic		<u>37</u>	<u>35</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2004 (Unaudited) <i>HK\$ million</i>	As at 31 December 2003 (Audited) <i>HK\$ million</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,237	1,323
Investment properties		58	60
Long term investments	9	58	58
Brands, trademarks and patents	10	1,358	1,391
Other assets		34	36
Goodwill	11	277	284
Negative goodwill	11	(5)	(4)
		<u>3,017</u>	<u>3,148</u>
CURRENT ASSETS			
Cash and bank balances		725	785
Pledged deposits with banks		12	21
Short term listed investments outside Hong Kong		403	763
Short term unlisted investments, at fair value		1	10
Properties held for sale		92	92
Accounts, bills and other receivables	12	730	767
Amounts due from associates		–	92
Inventories	13	733	738
Prepayments, deposits and other assets		281	218
Tax recoverable		3	1
		<u>2,980</u>	<u>3,487</u>
CURRENT LIABILITIES			
Bank overdrafts	20	682	616
Trust receipt loans	20	632	490
Secured bank loans	20	164	164
Unsecured bank loans		65	267
Obligations under finance leases	20	9	9
Accounts and bills payables	14	666	851
Accrued liabilities and other payables		332	339
Tax		1	4
Cash dividend payable	6	46	–
		<u>2,597</u>	<u>2,740</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		As at 30 June 2004 (Unaudited) <i>HK\$ million</i>	As at 31 December 2003 (Audited) <i>HK\$ million</i>
	<i>Notes</i>		
NET CURRENT ASSETS		<u>383</u>	<u>747</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,400	3,895
NON-CURRENT LIABILITIES			
Secured bank loans	20	154	178
Obligations under finance leases	20	4	9
Deferred tax		11	11
Provision for retirement and long service		55	57
Accrued liabilities and other payables		<u>91</u>	<u>149</u>
		<u>315</u>	<u>404</u>
		<u>3,085</u>	<u>3,491</u>
CAPITAL AND RESERVES			
Share capital	15	46	46
Share premium	16	812	812
Reserves	17	<u>1,691</u>	<u>2,093</u>
		2,549	2,951
MINORITY INTERESTS		<u>536</u>	<u>540</u>
		<u>3,085</u>	<u>3,491</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
Net cash (used in) / generated from operating activities	(80)	20
Net cash generated from / (used in) investing activities	46	(26)
Net cash used in financing activities	<u>(92)</u>	<u>(64)</u>
Decrease in cash and cash equivalents	(126)	(70)
Cash and cash equivalents at 1 January	<u>169</u>	<u>213</u>
Cash and cash equivalents at 30 June	<u><u>43</u></u>	<u><u>143</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	725	512
Bank overdrafts	<u>(682)</u>	<u>(369)</u>
	<u><u>43</u></u>	<u><u>143</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Restated) <i>HK\$ million</i>
Total equity at 1 January	2,951	2,066
Adjustment on adoption of SSAP 12 (revised)	—	(21)
Total equity at 1 January, as restated	<u>2,951</u>	<u>2,045</u>
Effect of change in tax rate	—	(3)
Surplus on revaluation of equity securities	6	83
Exchange differences on translation of the financial statements of foreign entities	<u>4</u>	<u>—</u>
Net gain not recognised in the income statement	<u>10</u>	<u>80</u>
Reversed on disposal of subsidiaries	17	—
Net profit for the period attributable to shareholders	172	141
Dividend	<u>(601)</u>	<u>(44)</u>
Total equity at 30 June	<u><u>2,549</u></u>	<u><u>2,222</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2003.

2. 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 period is as follows:

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
Branded distribution	1,604	841
Electronics manufacturing services	1,287	2,091
Financial services	—	827
	2,891	3,759
	2,891	3,759

3. INCOME STATEMENT BY BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) **Income statement by business segments:**

For the six months ended 30 June 2004:

	Branded distribution <i>HK\$ million</i>	Electronics manufacturing services <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Turnover	<u>1,604</u>	<u>1,287</u>	<u>2,891</u>
Divisional operating results	<u>164</u>	<u>51</u>	215
Unallocated corporate expenses			<u>(6)</u>
			209
Gain/(loss) on disposal of property, plant and equipment	2	(18)	(16)
Loss on disposal of subsidiaries			(4)
Interest income			<u>2</u>
Operating profit			191
Interest expenses			(13)
Taxation			(1)
Minority interests			<u>(5)</u>
Profit attributable to shareholders			<u>172</u>

For the six months ended 30 June 2003:

	Branded distribution <i>HK\$ million</i>	Electronics manufacturing services <i>HK\$ million</i>	Financial services <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Turnover	<u>841</u>	<u>2,091</u>	<u>827</u>	<u>3,759</u>
Divisional operating results	<u>55</u>	<u>85</u>	<u>32</u>	172
Unallocated corporate expenses				<u>(14)</u>
				158
Interest income				<u>2</u>
Operating profit				160
Interest expenses				(19)
Taxation				1
Minority interests				<u>(1)</u>
Profit attributable to shareholders				<u>141</u>

3. INCOME STATEMENT BY BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) The geographical segments of the Group's turnover is as follows:

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
Asia	2,075	2,853
North America	420	600
Europe	396	306
	<u>2,891</u>	<u>3,759</u>

4. PROFIT BEFORE TAX

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

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
Depreciation of property, plant and equipment:		
Owned assets	62	66
Leased assets	1	-
Operating lease rentals:		
Land and buildings	11	15
Interest on:		
Bank overdrafts and loans wholly repayable within five years	12	19
Bank loans wholly repayable over five years	1	-
Auditors' remuneration	3	3
Amortisation of goodwill	7	9
Amortisation of brands, trademarks and patents	39	39
Amortisation of other assets	4	1
Staff costs:		
Salaries and other benefits	98	94
Retirement benefit costs	1	9
Research and development expenditure	5	1
Loss on disposal of property, plant and equipment	16	-
Interest income	(2)	(2)
	<u>(2)</u>	<u>(2)</u>

5. 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 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.

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
Current period provision:		
Hong Kong	1	–
Overseas	–	1
Under provision in prior period		
Overseas	–	4
Deferred tax		
Overseas	–	(6)
	<u>1</u>	<u>(1)</u>

6. DIVIDENDS

	Six months ended	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	30 June 2003 (Unaudited) <i>HK\$ million</i>
2002 final dividend of HK11 cents per share on 400 million shares	–	44
2003 final cash dividend of HK10 cents per share on 460 million shares	46	–
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 being held by the shareholders on the register of members on 16 June 2004. The market value at that date and at 30 June 2004 of SEC was 34 Yen per share which equates to a special dividend of HK121 cents per share.	555	–
	<u>601</u>	<u>44</u>

An interim dividend in respect of 2004 of HK11 cents per share on 460 million shares amounting to a total of HK\$51 million was approved by the Board after the balance sheet date, and not recognised as a liability as at 30 June 2004.

7. EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to shareholders of HK\$172 million (2003: HK\$141 million) and on 460 million shares (2003: 400 million shares) in issue during the period.

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

8. PROPERTY, PLANT AND EQUIPMENT

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
Net book value at beginning of year	1,323	1,386
Foreign currency adjustment	–	8
Additions	24	90
Arising on acquisition of subsidiaries	–	2
Disposal of subsidiaries	(18)	(3)
Disposals	(29)	(32)
Depreciation provided during the period	(63)	(128)
	1,237	1,323
Net book value at balance sheet date	1,237	1,323

9. LONG TERM INVESTMENTS

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
Listed investments, at market value		
Hong Kong	7	9
Outside Hong Kong	25	22
Unlisted investments, at cost less impairment	26	27
	58	58
	58	58

10. BRANDS, TRADEMARKS AND PATENTS

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
At beginning of year	1,391	1,475
Foreign currency adjustment	6	(6)
Amortisation for the period	(39)	(78)
	<u>1,358</u>	<u>1,391</u>
At balance sheet date	<u>1,358</u>	<u>1,391</u>

11. GOODWILL / (NEGATIVE GOODWILL)

	Goodwill		Negative goodwill	
	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
At beginning of year	284	217	(4)	(8)
Acquisition of subsidiaries	-	83	-	-
Additional interest in subsidiaries	-	-	(1)	-
Disposal of subsidiaries	-	-	-	3
(Amortisation) / release for the period	(7)	(16)	-	1
	<u>277</u>	<u>284</u>	<u>(5)</u>	<u>(4)</u>
At balance sheet date	<u>277</u>	<u>284</u>	<u>(5)</u>	<u>(4)</u>

12. 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:

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
0 – 3 months	644	675
3 – 6 months	7	20
Over 6 months	79	72
	730	767
	730	767

13. INVENTORIES

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
Raw materials	347	353
Work in progress	53	60
Finished goods	333	325
	733	738
	733	738

14. ACCOUNTS AND BILLS PAYABLE

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

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
0 – 3 months	559	792
3 – 6 months	20	33
Over 6 months	87	26
	666	851
	666	851

15. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each <i>million</i>	Amount <i>HK\$ million</i>
Authorised:		
At 1 January 2003, 31 December 2003 and 30 June 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, 1 January 2004 and 30 June 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 major 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.

16. SHARE PREMIUM

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
At beginning of year	812	254
Premium on issue of new shares	–	570
Share issue expenses	<u>–</u>	<u>(12)</u>
At balance sheet date	<u>812</u>	<u>812</u>

17. RESERVES

	Contributed reserve	Investment revaluation reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January 2003, as previously reported	961	(24)	483	(194)	546	1,772
Adjustment on adoption of SSAP 12 (revised)	—	—	(25)	—	4	(21)
At 1 January 2003, as restated	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
Dividends	—	—	—	—	(90)	(90)
At 31 December 2003 and 1 January 2004	961	(2)	455	(231)	910	2,093
Arising on consolidation of overseas subsidiaries	—	—	—	4	—	4
Reversed on disposal of subsidiaries	—	(6)	(12)	35	—	17
Surplus on revaluation of equity securities	—	6	—	—	—	6
Profit for the period	—	—	—	—	172	172
Dividends	—	—	—	—	(601)	(601)
At 30 June 2004	961	(2)*	443#	(192)	481	1,691

The balance of capital reserve comprise 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\$2 million.

18. CONTINGENT LIABILITIES

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
Bills discounted with recourse	<u>30</u>	<u>20</u>

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

19. COMMITMENTS

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
(a) Capital commitments:		
Contracted for	1	1
Authorised, but not contracted for	<u>1</u>	<u>2</u>
	<u>2</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	26	29
Later than one year and not later than five years	<u>25</u>	<u>23</u>
	<u>51</u>	<u>52</u>
(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	6	3
Later than one year and not later than five years	<u>3</u>	<u>1</u>
	<u>9</u>	<u>4</u>
(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 RMB65 million (2003: JPY10,781 million and RMB82 million)	<u>61</u>	<u>856</u>
To purchase approximately JPY626 million (2003 : nil)	<u>45</u>	<u>-</u>

20. 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:

	30 June 2004 (Unaudited) <i>HK\$ million</i>	31 December 2003 (Audited) <i>HK\$ million</i>
(a) Legal charges over brands, trademarks and patents	602	617
(b) Legal charges over medium term leasehold land and buildings in Hong Kong	207	210
(c) Legal charges over investment properties	47	46
(d) Legal charges over plant and machinery	34	35
(e) Pledge of medium term leasehold land and buildings outside Hong Kong	110	110
(f) Pledge of accounts receivable and bank deposits	17	26
	1,017	1,044
	1,017	1,044

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the board of directors on 10 September 2004.

DIVIDENDS

The Board of Directors has resolved to pay an interim dividend of HK11 cents per share (2003: HK10 cents per share) totaling approximately HK\$51 million (2003: HK\$46 million) to shareholders whose names appear on the register of members on 13 October 2004. It is expected that dividends will be dispatched to shareholders on or before 10 November 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 11 October to 13 October 2004, both days inclusive, during which no transfer of shares will be registered.

To rank for the interim dividend, all transfers should be lodged with the Company's Registrars, Tengis Limited at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 8 October, 2004.

BUSINESS REVIEW

The turnover of the Group for the six months ended 30 June 2004 (“current period”) was HK\$2,891 million, as compared with HK\$3,759 million for the six months ended 30 June 2003 (“corresponding period”). The corresponding period included HK\$698 million attributable to the foreign exchange business that was sold in October 2003.

Operating profit for the current period was HK\$191 million, as compared to HK\$160 million for the corresponding period.

Net profit attributable to shareholders for the current period was HK\$172 million which was a 22% increase as compared to the HK\$141 million for the corresponding period.

The core business segments of the Group currently comprises of The Branded Distribution Group and The Electronics Manufacturing Services Group. As noted above the Group disposed of its foreign exchange services business in October 2003 which was the primary component of the Financial Services Group, this is therefore no longer considered a core business segment.

The Branded Distribution Group realized significant growth and market penetration in 2004 as developing European and non European countries increased their consumer electronic spend. The Group’s three global brands; Nakamichi, Akai and Sansui (the “Brands”) are now distributed in more than 55 countries across the globe. In addition the Kawa brand in China is continuing to expand the number of sales outlets so as to meet increasing demand for its products. This resulted in increased turnover of HK\$1,604 million for the current period as compared to HK\$841 million for the corresponding period. The Group’s operating profit increased similarly to HK\$164 million, compared to HK\$55 million for the corresponding period.

The Electronics Manufacturing Services Group achieved an operating profit of HK\$51 million for the current period, compared to HK\$85 million for the corresponding period. This was despite a decrease of 38% in turnover to HK\$1,287 million, which was as a result of (1) the successful shift to higher value added consumer products such as DVD recorders and LCD projectors, (2) The closure of the Group’s LCD manufacturing operations in Thailand and the transfer of business to the Group’s Zhongshan facility, which began at the end of 2003 and was completed in June 2004; and (3) The phasing out and decrease in demand of the matured Digital Linear Tape Ferrite Head, prior to the build up of turnover of the new generation of Super DLT Magneto-Resistive Heads (“SDLT heads”).

PROSPECTS

The Branded Distribution Group

It is expected that the already substantial progress made in the world-wide distribution of the Brands will be further expanded and strengthened. In addition, the Group expects to realize growth with the mandated broadcast conversion from analog to digital broadcasting signals in both Europe and the U.S. The Group is therefore placing strong emphasis on the flat panel display products, in particular Plasmas and LCD TV's where it sees significant long term growth potential, along with the DVD Home Theatre Entertainment Systems.

We have successfully launched an aggressive media campaign in China to promote our Brands, including engaging well known media stars with the aim to raise the profile of our Brands. We intend to promote Sansui to be the top brand in the audio / hi-fi product-category in China.

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

The Electronics Manufacturing Services Group

The Group continues to collaborate with its customers who are world-class global brands for the shifting of their own production in Japan and elsewhere to the Zhongshan facility, with the focus on higher value added products so as to move up the value chain. It expects to benefit from this in the second half of the year as well as going forward.

As well as expanding its LCD-TV facility in Zhongshan, the Group also started its first production line of Plasmas in the first half of this year, followed by three more lines which commenced production this month, supplying to Sansui and Akai as well as to OEM customers. Emphasis is being placed on the 46" Plasma for which the Group has a close relationship with the sole panel manufacturer. The Group is working on reaching similar such agreements with other key suppliers so as to secure supply with attractive pricing going forward. This increase in the manufacture of the Group's Branded products, particularly for that sold domestically in China, will continue to have a positive impact.

The current market environment for the completed storage solution industry remains weak with continued price pressure resulting in deteriorating margins. To counter this the Group expects that the SDLT heads will account for an increased portion of turnover in the second half of the year, but that overall turnover will be flat. The Group has made progress in the development of heads and complementary products for the Linear Tape Open ("LTO") Drive market, which will allow the Group to enter the LTO Drive market and contribute to the Group's revenue in the near future. We believe complimentary products which the Group is developing with customers, such as autoloaders and tape drives will also enable the Group to open up other new streams of revenue.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 30 June 2004 was approximately 10,000. Employees are remunerated according to their performance and working experience, and the nature of the job and market conditions.

DIRECTORS' INTERESTS IN SHARE CAPITAL

The interests of the directors and their associates in the shares, underlying shares or debt securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO as at 30 June 2004, are set out below:

Long positions in shares:

Directors	Capacity	Number of issued ordinary shares of HK\$0.10 each in the Company	% of the issued share capital
Mr. Christopher W. Ho	Interest in corporation	305,081,713*	66.29%
Mr. C. F. Lam	Beneficial owner	303,600	0.07%
Mr. Adrian C. C. Ma	Beneficial owner	78,000	0.02%

* Mr. Christopher W. Ho had a 100% deemed beneficial interest in The Grande International Holdings Limited which owned 305,081,713 ordinary shares in the Company through its wholly owned subsidiary, Barrican Investments Corporation.

Save as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations that was required to be recorded under section 352 of the SFO as at 30 June 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Apart from the foregoing, at no time during the 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the interests of every person, other than the directors of the Company, in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Long positions in shares:

Name of shareholders	Capacity	No. of ordinary shares held	% of the issued share capital
Mr. Lawrence Y. L. Ho	Corporate	24,986,000*	5.42%
Morgan Stanley	Corporate	23,126,000	5.02%

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

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

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

CORPORATE GOVERNANCE

None of the directors was aware of information that would reasonably indicate that the Company was not, or had not been for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

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 condensed financial statements for the six months ended 30 June 2004.

By order of the Board
Christopher W. Ho
Chairman

Hong Kong, 10 September 2004