1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are described in Note 4. There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Second Board of the Kuala Lumpur Stock Exchange. The principal place of business of the Company is located at Lot 4A, Jalan Sultan Mohamed 3, Kawasan Perindustrian Bandar Sultan Suleiman, 42000 Port Klang, Selangor Darul Ehsan.

The Company's holding company is The Grande Holdings Limited, a company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited. The Company's ultimate holding company is The Grande International Holdings Limited, a company incorporated in The British Virgin Islands.

The Company does not have any employee. The number of employees in the Group at the end of the year was 319 (2000 : 256).

On 23 May, 2001, the Company changed its name from Capetronic Consumer Electronics Holdings Berhad to Nakamichi Corporation Berhad.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

The promulgated Malaysian Accounting Standards Board Standard ("MASB") 21: Business Combinations has been adopted prior to its effective date. Following the early adoption of the standard, a prior year adjustment had been made as disclosed in Note 20.

(b) Revenue Recognition

(i) Sale of goods

Revenue relating to sale of goods is recognised net of returns and discounts when transfer of risks and rewards have been completed.

(ii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(c) Basis of Consolidation

Consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Companies acquired or disposed are included in the consolidated financial statements from the date of acquisition or to the date of disposal. Subsidiaries are consolidated using the acquisition method of accounting. Acquisition of subsidiaries which meet the criteria for merger are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's book is recorded at the nominal value of shares issued. In prior years, the resulting debit difference between the carrying value of the investments and the nominal value of shares acquired was treated as a merger deficit. During the financial year, the merger deficit has been adjusted against the retained profits pursuant to the requirement of MASB 21: Business Combinations, as disclosed in Note 20.

The results of the companies being merged are included as if the merger had been effected throughout the current and previous financial years.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

(d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred. On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Currency Conversion and Translation

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences are taken to the income statement.

Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at exchange rates at the dates of transactions with respect to the income statement. All resulting translation differences are taken to reserves.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used are as follows:

	2001 RM	**2000 RM**
United States Dollar	3.8000	3.8000
Japanese Yen	0.0290	0.0331

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Long term leasehold land with unexpired lease tenure of 50 years or more is not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Building	2.2%
Plant, machinery and tools	10% - 33 1/3%
Furniture, fittings and leasehold improvement	10% - 33 1/3%
Motor vehicles	25%

(g) Inventories

In the current financial year, the basis for determining the cost of inventories was changed from the weighted average basis to the first-in, first-out basis. The directors consider that this change in accounting policy gives a more appropriate presentation. Following this change in accounting policy, the amounts for the current and comparative years are stated on the new basis and a prior year adjustment has been made. The effects of this change in accounting policy are disclosed in Note 20.

Inventories are stated at lower of cost and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(h) Deferred Taxation

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse.

(i) Trade and Other Receivables

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at banks and deposits with licensed banks, net of any outstanding bank overdrafts.

(k) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(l) Affiliated Company

An affiliated company is defined as an associated company of the ultimate holding company.