

chairman's statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and the Consolidated Financial Statements for Nakamichi Corporation Berhad ("NCB or the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2004.

FINANCIAL REVIEW

The Group reported a turnover of RM44 million as compared with RM110 million in the previous year and a loss after tax of RM14 million as compared to profit after tax of RM0.1 million in the previous year. The decrease in profitability is mainly due to a lower turnover in 2004.

DIVIDENDS

No dividend was declared in respect of the financial year ended 31 December 2004.

FUTURE HIGHLIGHTS

The Board is fairly optimistic that the group will be able to make an incremental improvement in the financial results in the next financial year by introducing new products namely a modular series.

The Group will continuously focus on its core activity of manufacturing high end lifestyle products as well as positioning itself to offer its manufacturing capability to other brands.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my utmost appreciation to the management and staff of the Group for their loyalty and commitment. I also would like to express our sincere appreciation for the confidence and support given by our stakeholders, shareholders, customers, suppliers and bankers.

Mirzan Bin Mahathir
Chairman

statement of corporate governance

The Board of Directors of Nakamichi Corporation Berhad ('NCB') is committed to ensuring that high standards of corporate governance are practised throughout the Company and its subsidiaries ("the Group") as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial position of NCB and the Group. To this end, the Board fully supports the recommendations of the Malaysian Code of Corporate Governance.

Set out below is a statement of how the Group has applied the principles of the Code. The Board of Directors confirm that the Group has complied with the best practices in the Code throughout the financial year ended 31 December 2004.

The Board of Directors

The Board assumes responsibility for effective stewardship and control of the Group towards realising long term shareholders' value, and has established terms of reference to assist in the discharge of this responsibility.

The Board has the overall responsibility for reviewing and adopting strategic plans for the Group, overseeing the conduct of the Group's businesses, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's systems of internal control. The composition of the Board reflects a balance of Executive and Non-Executive Directors, all from diverse professional backgrounds with a wide range of business, financial and legal experiences relevant to lead the Company, and as such, are able to bring an independent judgement to bear on issues in terms of business strategies, financial and operational performance, resources and standards of conduct.

The Board meets on a quarterly basis, with additional meetings convened as necessary. During the financial year ended 31 December 2004, six (6) Board meetings were held. Details of attendance are set out in the statement accompanying the Notice of the Eleventh Annual General Meeting.

Prior to each Board meeting, the members of the Board are each provided with the relevant documents and information to enable them to arrive at an informed decision.

The Board has delegated specific responsibilities to 3 subcommittees (Audit, Nomination and Remuneration Committees), the details of which are set out below. These Committees have the authority to examine particular issues and report back to the Board with their recommendation. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

All Directors have attended the Mandatory Accreditation Programme and will undergo relevant Continuing Education Programmes prescribed by Bursa Malaysia Securities Berhad and receive further training from time to time, particularly on relevant new laws and regulations, and changing commercial risks.

Board Balance

The Board currently has eight (8) members, comprising one (1) Executive Director, three (3) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors including the Chairman. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad. A brief description of the background of each Director is presented in the Annual Report.

There is also a balance in the Board because of the presence of Independent Non-Executive Directors of the calibre necessary to carry sufficient weight in Board decisions. Although all the Directors have an equal responsibility, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conduct its business.

statement of corporate governance

Lee Hock Chye act as the Senior Independent Non-Executive Director. Any concerns concerning the Group may be conveyed to him.

While the Company has a holding company, the investment of minority shareholders is fairly reflected through Board representation.

Supply of Information

All Directors review a Board report prior to the Board meeting. This is issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting.

The members of the Board in their individual capacity have access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. Besides direct access to management staff, external professional advisers are also made available to render their independent views and advice to the Board, where necessary in the furtherance of their duties and at the Group's expense.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

Appointments to the Board

The Malaysian Code on Corporate Governance endorses, as good practice, a formal procedure for appointment to the Board with a Nomination Committee making recommendations to the Board. The Nomination Committee was set up on 7 December 2001.

Nomination Committee

Mirzan bin Mahathir (Chairman)
Lee Hock Chye
Yohan A Rajan

The subcommittee had two (2) meetings in the period which was attended by all members. All members of this Committee are independent non-executive Directors.

The Nomination Committee recommends to the Board:

- candidates for all directorships to be filled by shareholders or the Board; and
- directors to fill the seats on Board committees.

In addition, this Committee assesses:-

- and examines the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness;
- the effectiveness of the Board as a whole and the Committees of the Board; and
- the contribution of each individual Director.

The Board, through the Nomination Committee, reviews annually its required mix of skills and experience and other qualities, including core competencies which non-executive Directors should bring to the Board.

statement of corporate governance

Re-election

In accordance with the Company's Articles of Association, all newly appointed Directors are subject to retirement and are entitled for re-election at the first annual general meeting after their appointment. All Directors shall retire from office once at least in each 3 years, but shall be eligible for re-election. An election of Directors shall take place each year.

Directors' Remuneration

The Company has adopted the objective as recommended by the Malaysian Code on Corporate Governance to determine the remuneration for a Director so as to ensure that the Company attracts and retains the Directors needed to run the Group successfully. The component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of executive Directors. In the case of non-executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular non-executive concerned.

Remuneration Procedure

The Remuneration Committee recommends to the Board the executive remuneration and its cost, and the remuneration package for each executive Director. It is, nevertheless, the ultimate responsibility of the entire Board to approve the remuneration of these Directors.

The determination of the remuneration of the non-executive Directors is a matter for the Board as a whole with the Director concerned abstaining from deliberations and voting on decisions in respect of his individual remuneration.

Remuneration Committee

Mirzan bin Mahathir (Chairman)
Lee Hock Chye
Yohan A Rajan

This subcommittee of the Board had two (2) meetings in the period for which was attended by all members. All members of this Committee are independent non-executive Directors.

Disclosure

The details of the Directors' remuneration for the financial year ended 31 December 2004 are disclosed in the notes to the Audited Financial Statements for the financial year ended 31 December 2004.

Dialogue between companies and investors and the Annual General Meeting

At each Annual General Meeting, the Board presents the progress and performance of the business and encourages shareholders to participate in the question and answer session. Executive Directors and, where appropriate, the Chairman of the Audit, Nomination and Remuneration Committees are available to respond to shareholders' questions during the meeting.

statement of corporate governance

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

The notice convening such meetings are sent to shareholders at least fourteen days before the shareholders' meetings in the case of an ordinary resolution and twenty-one days in the case of a special resolution or Annual General Meeting. The shareholders are also kept informed of the Group's financial results and corporate developments through public announcements made to Bursa Malaysia Securities Berhad.

Audit Committee

Yohan A Rajan (Chairman)
Lee Hock Chye
Johan Zainuddin Dzulkifli
Michael Andrew Barclay Binney

The report by the Audit Committee for the period is set out in this Annual Report.

Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Audit Committee reviews the financial statements of the Company and the Group with the assistance of the external auditors where necessary and recommends the same for consideration and approval by the Board. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Company and of the Group. In presenting the annual financial statements and quarterly announcement to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. This also applies to other price sensitive public reports and reports to regulators.

Internal Control

The Board has overall responsibility for maintaining a sound system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as risk management. This system can only provide reasonable but not absolute assurance against material misstatements, losses and fraud.

The Internal Audit provides independent and objective reports on the Group's management, records, accounting policies and controls to the Audit Committee. Internal Audits include evaluation of the processes by which risks are identified, assessed and managed and ensure that controls which are instituted are appropriate and can effectively address acceptable risk exposure. The Internal Audit also ensures that recommendations to improve controls are followed through by the Management.

Relationship with Auditors

The Board maintains a transparent and formal relationship with the Group's external auditors, primarily through the Audit Committee in seeking professional advice and ensuring compliance with the relevant accounting standards. The external auditors are invited to attend the meetings of the Audit Committee and the Board whenever necessary to discuss the Group's Financial Statements.