

directors' report

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are described in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group	Company
	RM	RM
Net loss before tax	<u>(14,036,160)</u>	<u>(266,293)</u>

There were no material transfers to or from reserves or provisions during the financial year.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

directors' report

DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Mirzan bin Mahathir

Lee Hock Chye

Ma Chi Chiu

Yohan A Rajan

Michael Andrew Barclay Binney

Johan Zainuddin bin Dzulkifli

Lee Yen Kee Ruby (appointed on 28 October 2004)

Yip Kit Chong (appointed on 28 October 2004)

Christopher Ho Wing On (resigned on 28 October 2004)

Paul Law Kwok Fai (resigned on 28 October 2004)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors from the Group as shown in Note 15 to the financial statements or from its related corporations) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

directors' report

DIRECTORS' INTEREST IN SHARES

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

Number of Ordinary Shares of RM1.00 Each				
	1 January			31 December
	2004	Bought	Sold	2004
The Company				
Direct				
Mirzan bin Mahathir	14,000	-	-	14,000
Number of Ordinary Shares of HK\$0.10 Each				
	1 January			31 December
	2004	Bought	Sold	2004
Holding company				
The Grande Holdings Limited				
Direct				
Ma Chi Chiu	78,000	-	-	78,000

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

directors' report

OTHER STATUTORY INFORMATION

- (a) Before the balance sheets and income statements of the Group and of the Company were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there are no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current asset which was unlikely to realise its value as shown in the accounting records in the ordinary course of business had been written down to an amount which it might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

directors' report

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors

Mirzan bin Mahathir

21 Feb 2005

Ma Chi Chiu

statement by directors

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Mirzan bin Mahathir and Ma Chi Chiu, being two of the directors of Nakamichi Corporation Berhad, do hereby state that in the opinion of the directors, the accompanying financial statements set out on pages 42 to 68 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2004 and of the results and cash flows of the Group and the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

Mirzan bin Mahathir

Ma Chi Chiu

21 Feb 2005

statutory declaration

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Michael Andrew Barclay Binney, being the director primarily responsible for the financial management of Nakamichi Corporation Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 42 to 68 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Oaths and Declaration Ordinance, Hong Kong.

Subscribed and solemnly declared by the
abovenamed Michael Andrew Barclay Binney
in 12th Floor, The Grande Building,
398 Kwun Tung Road, Kowloon, Hong Kong
on 26 April 2005

Michael Andrew Barclay Binney

Before me: Wong, Mary Teresa Tak Lan
Notary Public, Hong Kong SAR

report of the auditors

TO THE MEMBERS OF NAKAMICHI CORPORATION BERHAD
(Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 42 to 68. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and the Company as at 31 December 2004 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

report of the auditors

TO THE MEMBERS OF NAKAMICHI CORPORATION BERHAD (CONTD.)
(Incorporated in Malaysia)

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Without qualifying our opinion, we draw attention to Note 7 to the financial statements which highlights a receivable amounting to RM43,692,033 to be settled by Grande (Nominees) Limited, a wholly owned subsidiary of the holding company, The Grande Holdings Limited, in relation to a debt settlement arrangement. This arrangement is a related party transaction which is subject to the approval by the shareholders of the Company and relevant regulatory authorities.

Ernst & Young
AF: 0039
Chartered Accountants

Wong Kang Hwee
No. 1116/01/06(J)
Partner

Kuala Lumpur, Malaysia

21 Feb 2005

consolidated balance sheet

AS AT 31 DECEMBER 2004

	Note	2004 RM	2003 RM
NON-CURRENT ASSETS			
Property, plant and equipment	3	<u>31,810,028</u>	<u>34,052,900</u>
CURRENT ASSETS			
Inventories	5	23,423,061	34,830,496
Trade receivables	6	-	273,206
Other receivables	7	48,037,018	46,565,259
Tax recoverable		101,011	101,011
Cash and bank balances	8	<u>8,101,240</u>	<u>8,922,172</u>
		<u>79,662,330</u>	<u>90,692,144</u>
CURRENT LIABILITIES			
Short term borrowings	9	1,390,000	1,921,000
Trade payables	10	10,291,338	9,700,314
Other payables	11	<u>6,408,186</u>	<u>5,703,048</u>
		<u>18,089,524</u>	<u>17,324,362</u>
NET CURRENT ASSETS		<u>61,572,806</u>	<u>73,367,782</u>
		<u>93,382,834</u>	<u>107,420,682</u>
FINANCED BY:			
Share capital	12	55,410,180	55,410,180
Reserves		37,972,654	52,010,502
Shareholders' equity		<u>93,382,834</u>	<u>107,420,682</u>

The accompanying notes form an integral part of the financial statements.

consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RM	2003 RM
Revenue	13	44,427,670	109,894,617
Cost of sales		<u>(50,905,030)</u>	<u>(95,454,998)</u>
Gross (loss)/profit		(6,477,360)	14,439,619
Other operating income		4,897,716	84,899
Administrative expenses		<u>(12,335,466)</u>	<u>(14,140,418)</u>
(Loss)/profit from operations	14	(13,915,110)	384,100
Finance cost, net	17	<u>(121,050)</u>	<u>(286,772)</u>
(Loss)/profit before taxation		(14,036,160)	97,328
Taxation	18	<u>(1,688)</u>	<u>-</u>
Net (loss)/profit for the year		<u><u>(14,037,848)</u></u>	<u><u>97,328</u></u>
(Loss)/earnings per share (sen)	19	<u>(25.33)</u>	<u>0.18</u>

The accompanying notes form an integral part of the financial statements.

consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2004

	Non-distributable			Distributable Retained profit/ (accumulated loss)	
	Share capital RM	Share premium RM	Exchange reserve RM	RM	Total RM
At 1 January 2003	55,410,180	38,451,919	50,800	13,410,455	107,323,354
Net profit for the year	-	-	-	97,328	97,328
At 31 December 2003	<u>55,410,180</u>	<u>38,451,919</u>	<u>50,800</u>	<u>13,507,783</u>	<u>107,420,682</u>
At 1 January 2004	55,410,180	38,451,919	50,800	13,507,783	107,420,682
Net loss for the year	-	-	-	(14,037,848)	(14,037,848)
At 31 December 2004	<u>55,410,180</u>	<u>38,451,919</u>	<u>50,800</u>	<u>(530,065)</u>	<u>93,382,834</u>

The accompanying notes form an integral part of the financial statements.

consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 RM	2003 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(14,036,160)	97,328
Adjustments for:		
Depreciation	2,202,504	2,586,488
Write back of provision for doubtful debts	(4,811,878)	-
Gain on disposal of property, plant and equipment	(85,838)	(6,000)
Unrealised loss/(gain) on foreign exchange	44,891	(105,543)
Interest expense	126,244	291,386
Interest income	(5,194)	(4,614)
Operating (loss)/profit before working capital changes	(16,565,431)	2,859,045
Decrease/(increase) in receivables	3,613,325	(429,606)
Decrease in inventories	11,407,435	8,285,626
Increase/(decrease) in payables	1,251,271	(535,185)
Cash (used in)/generated from operations	(293,400)	10,179,880
Taxes paid	(1,688)	-
Net cash (used in)/generated from operating activities	(295,088)	10,179,880
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	318,828	6,000
Purchase of property, plant and equipment	(192,622)	(1,347,623)
Interest received	5,194	4,614
Net cash generated from/(used in) investing activities	131,400	(1,337,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(126,244)	(291,386)
Repayment of short term borrowings	(14,592,000)	(26,402,000)
Drawdown of short term borrowings	14,061,000	18,323,000
Net cash used in financing activities	(657,244)	(8,370,386)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(820,932)	472,485
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,922,172	8,449,687
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>8,101,240</u>	<u>8,922,172</u>

The accompanying notes form an integral part of the financial statements.