

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2000, the outstanding bank loans of the Group amounted to approximately HK\$102,169,000 (1999: approximately HK\$12,908,000). The additional bank borrowings were drawn to finance two major investments of the Group made in August 2000 and January 2001, details of which are set out below.

As at 31st December, 2000, the cash and cash equivalents held by the Group amounted to approximately HK\$82,932,000. In addition, as at the balance sheet date, there was a loan due from a former subsidiary of the Group which amounted to approximately HK\$30,600,000 and repayable within a month. The loan was received in late January 2001. With such excess cash, the Group made partial loan repayments amounting to approximately HK\$30,280,000 in early 2001, reducing the bank borrowings to approximately HK\$71,889,000.

GEARING RATIO

As a result of the additional bank financings, the Group's gearing ratio, defined as total liabilities (excluding capital and reserves and minority interests) expressed as a percentage of the total assets, increased to approximately 43.0% as at 31st December, 2000 (1999: 17.9%).

However, with the partial loan repayments made in early 2001, the gearing ratio of the Group has been improved in 2001.

CAPITAL STRUCTURE

The two major investments of the Group as set out below were fully paid off in August 2000 and January 2001. There is no present requirement or plan to raise fund through the issuance of equity or debt unless further investment chances arise.

SIGNIFICANT INVESTMENTS HELD

There were two significant investments made by the Group in August 2000 and January 2001, including the rights subscription in ChipMOS Technologies Inc. ("ChipMOS") and the investment in a joint venture in Taiwan respectively.

ChipMOS is a company incorporated in Taiwan in which the Group has invested. In August 2000, the Group subscribed and paid for a rights issue of ChipMOS for approximately HK\$45,121,000. The total investment of the Group in ChipMOS after the rights subscription increased to approximately HK\$114,818,000. In view that the lock up period for the investment was expired on 30th June, 2000, the directors had changed their intention of holding the investment on a continuing basis to that of a disposal in the near term. Accordingly, the investment was transferred to other investments at HK\$114,818,000 on the balance sheet.

In January 2001, SyncMOS Technologies, Inc. (BVI) (“SyncMOS”), a wholly-owned subsidiary of the Company, entered into an agreement with Mao-Fu Investment Co., Ltd. (“MF”), a related company, to set up a joint venture company in Taiwan named 新茂國際科技股份有限公司 (“JV Co.”) for the wholesale distribution of electronic materials and components and the provision of industrial and commercial services and product design. Upon incorporation of the JV Co., the JV Co. will be held as to 55% by SyncMOS, approximately 10.94% by MF and approximately 34.06% by other minority shareholders (including certain connected persons of the Group). The subscription amount paid by SyncMOS for the investment amounted to approximately HK\$41,900,000, which was financed by bank borrowing and fully paid on the subscription date.

MATERIAL DISPOSAL

On 31st July, 2000, the Group disposed of its 51% interest in Vitelic (Hong Kong) Limited (“VHK”) for a consideration of approximately HK\$15,790,000. VHK is a company that operates a four-inch silicon wafer fabrication plant in Tai Po Industrial Estate and is engaged in the manufacture and trading of integrated circuits products. VHK had been performing at a level below the management’s expectations and making losses for all the prior years. After taking into account of the negative goodwill in connection with the acquisition of VHK which had not previously been reflected in the income statement, the Group recorded a gain of approximately HK\$8,444,000 on the disposal. Details of the disposal were contained in a circular dispatched to the shareholders on 19th August, 2000.

SEGMENTAL INFORMATION

There were no significant changes in the activity segments of the Group for 2000 as compared to the preceding year. Sale of integrated circuits continued to be the core business of the Group, from which a turnover of approximately HK\$91,978,000 (1999: approximately HK\$63,528,000) was registered, representing approximately 77.7% (1999: 74.1%) of the total turnover for the year. Details of the segmental information are set out in the Report of The Directors.

HUMAN RESOURCES

The Group recognized the importance of human resources to the success of the Group and rewarded its employees through fair remuneration packages and other fringe benefits. As at 31st December, 2000, the Group hired approximately 136 employees. The remuneration of employees was determined based on the employees' responsibility and performance, while maintained competitive in the market.

Under the terms of share option scheme (the "Scheme") approved by shareholders of the Company on 25th January, 1994, the board of directors may, at their discretion, grant options to senior executives and executive directors of the Group to subscribe for shares in the Company. Details of the Scheme are set out in note 21 to the financial statements.

EXCHANGE RISK

In line with the industry practice, the sales or design fees earned from integrated circuits as well as the costs associated with such sales or design activities were mainly negotiated and settled in US dollars. Owing to the stability of US dollars and the pegging relationship between HK dollars and US dollars, the Group was not exposed to any substantial risk of exchange.

CONTINGENT LIABILITIES

As at 31st December, 2000, the Group did not have any significant contingent liabilities or pledge of assets.