

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2001, the cash and cash equivalents held by the Group amounted to approximately HK\$66.3 million (2000: approximately HK\$82.9 million).

Although the loss before taxation amounted to approximately HK\$72.3 million, the Group recorded a net cash inflow from operating activities of approximately HK\$14.6 million. It reflected the fact that, significant loss before taxation was largely attributed by a non-cash outflow provision for diminution in value on holding the shares of ChipMOS of approximately HK\$52.3 million.

After taking into account of cash outflow from investing activities of approximately HK\$29.8 million and other cash flow items, there was a decrease in cash and cash equivalents of approximately HK\$16.6 million for the year ended 31st December, 2001.

As at 31st December, 2001, the outstanding bank loans of the Group amounted to approximately HK\$73.0 million (2000: approximately HK\$102.2 million). Unused bank facilities as at the same date amounted to approximately HK\$30.6 million.

Subsequently after the year end, the Group arranged a ten-year term loan of HK\$42.0 million by pledging the Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong. The funds obtained were then used to repay the short-term bank loans of the Group.

GEARING RATIO

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of the total assets, was 40.4% (2000: 43.4%).

EXCHANGE RISK

With the major operations of the Group being in Taiwan, exchange gain or loss will arise on settlement of transactions not nominated in NT dollars. As sales in Taiwan and the associated costs were mainly negotiated and settled in NT dollars, the Group was not exposed to substantial risk of exchange.

CAPITAL STRUCTURE

The share capital of the Company remained unchanged in the last year while the total reserves of the Group were reduced to approximately HK\$94.0 million (2000: approximately HK\$172.0 million).

Upon the setting up of the non-wholly owned joint venture company in Taiwan, 新茂國際科技股份有限公司, cash contributions from minority shareholders of approximately HK\$32.6 million were received by the Group.

The management will exercise due care in managing its funding arrangements with an objective of maintaining a comfortable cash flow to meet operational requirements.

INVESTMENTS AND CAPITAL ASSETS

The Group's major other investment with a total cost of approximately HK\$114.8 million, ChipMOS, commenced listing on NASDAQ in June 2001. Significant provision of approximately HK\$52.3 million was made in this year's accounts to reflect the drop in market value against the cost. However, with the recovery of the semi-conductor industry, the share price of ChipMOS has improved considerably after the year end. The management will monitor the market closely and will take appropriate action accordingly.

The joint venture company, 新茂國際科技股份有限公司, of which the Company held 55%, newly set up in January 2001, for design and trading of integrated circuit products, commenced its business in July 2001.

The investment property at 18 Lee Chung Street, Chai Wan, Hong Kong held by the Group was valued at HK\$63.0 million as at 31st December, 2001 (2000: HK\$70.0 million). The reduction in value was in line with the general property market trend in Hong Kong.

Owing to the adoption of new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, some of the non-current assets of the Group were reclassified and /or restated retroactively so as to conform to the current year disclosure requirements. In particular, computer software of approximately HK\$11.8 million was reclassified from fixed assets to intangible assets and a negative goodwill of approximately HK\$4.3 million was restated in the balance sheet of the Group.

As part of the structural enhancement plan, the management considered that the functions of the Shenzhen operations could be well covered by that of Shanghai office and decided to close down 總茂電子技術(深圳)有限公司, which was incorporated at Shenzhen.

SEGMENTAL INFORMATION

Design and trading of integrated circuits is the major business of the Group. The total external turnover of this segment amounted to approximately HK\$86.5 million or 93% of the Group's turnover. Within this segment, approximately HK\$76.3 million or 88% was contributed by the Taiwan operations. Details of the segmental information are set out in Note 4 to the Financial Statements.

HUMAN RESOURCES

As at 31st December, 2001, the total number of staff of the Group was approximately 113. The Group offers competitive remuneration package to our employees so as to retain and attract knowledgeable and experienced staff. Our salary review is conducted annually and is based on the performance of individual staff.

The management believes that, the Group's success should rely on a team of devoted and competent staff. In addition to a competitive remuneration package, suitable and up to date training programs are provided to employees for their development.

CONTINGENT LIABILITIES

As at 31st December, 2001, the Group did not have any material contingent liabilities.