

Management Discussion and Analysis

Liquidity And Financial Resources

For the year under review, with improved business environment, the Group recorded a net cash inflow from operating activities of approximately HK\$32.5 million (2002: net cash outflow of approximately HK\$12.3 million).

Other major cash flows include net proceeds from disposal of other investments amounted to approximately HK\$14.2 million, and net repayment of bank loans of approximately HK\$7.9 million.

As at 31st December 2003, the cash and cash equivalents held by the Group amounted to approximately HK\$70.3 million (2002: approximately HK\$33.8 million).

As at 31st December 2003, the total bank loans of the Group were approximately HK\$54.2 million (2002: approximately HK\$62.0 million), of which approximately HK\$23.7 million were renewable short-term loans.

With the positive cash flow from operating activities, the management expects that the liquidity of the Group will continue to strengthen.

Gearing Ratio

The gearing ratio of Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was approximately 19.7% (2002: approximately 37.3%). The great improvement of the gearing ratio as compared to that of last year was mainly attributed to the substantial growth in the value of some of the Group's current assets, namely, other investments and cash and cash equivalents.

For the year under review, the Group incurred a finance cost of approximately HK\$1.6 million as compared to that of approximately HK\$2.4 million last year.

Foreign Currency Exposure

For the year under review, an exchange gain of approximately HK\$0.4 million was recognized in the Group's profit and loss account, and an exchange adjustment of approximately HK\$0.3 million was debited to exchange reserve upon translation of the accounts of overseas operations.

The Group was not exposed to significant exchange risk, as sales and associated costs were generally negotiated and settled in the same currency and investments and borrowings were substantially in match.

Capital Structure

There was no change in the share capital structure of the Company for the year under review. The net profit attributable to shareholders of approximately HK\$217 million was credited to reserves.

As at 31st December 2003, the total shareholders' funds of the Group was approximately HK\$345 million (2002: approximately HK\$132 million).

Investments And Capital Assets

For the year under review, the share price of ChipMOS Technologies (Bermuda) Limited ("ChipMOS"), the Group's major other investment which is listed in NASDAQ started to soar in November 2003. As at

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31st December 2003, the share price reached approximately US\$9.4 per share, a significant increase as compared to that of approximately US\$2.5 per share as at 31st December 2002. The soar in share price was in reflection on the robust recovery of the semiconductor industry and the strong fundamentals of ChipMOS. In accordance with its latest result announcement, ChipMOS achieved an unaudited net profit of approximately NT\$418 million for the year ended 31st December 2003, as compared to a net loss of NT\$970 million for the year ended 31st December 2002. As disclosed in the latest annual report of ChipMOS, Mosel Vitelic Inc., an indirect substantial shareholder of the Company, owned approximately 44% of the equity shares of ChipMOS. On 15th April 2004, the quoted market price of the investment was approximately US\$10.3 per share.

In December 2003, the Group completed the acquisition of all the minority equity interests in Shanghai SyncMOS Semiconductor Company Limited from other shareholders for a cash consideration of US\$150,000. Upon acquisition, a positive accounting goodwill of approximately HK\$4.5 million was arisen and capitalized.

With a drop in average occupancy of tenants, the investment property at 18 Lee Chung Street, Chai Wan, Hong Kong was revalued on 31st December 2003 at HK\$52 million, a decrease as compared to HK\$56 million as at 31st December 2002.

Charge On Assets

The Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong had been mortgaged to a bank as security for a ten-year term loan with outstanding balance of approximately HK\$34.7 million as at 31st December 2003. Rentals and rental deposits from the investment property was also charged to the bank and the amount of such restricted cash deposits as at 31st December 2003 was approximately HK\$1.7 million.

Segmental Information

Design and trading of integrated circuits continues to be the major business segment of the Group. For the year under review, this segment contributed approximately 96% of the Group's turnover. Within this segment, the Taiwan operations contributed approximately 91% (2002: approximately 91%) of the segment's turnover. Note 2 to the financial statements sets out more details on segmental analysis.

Human Resources

There was no great change in the size of work-force for the year under review. As at 31st December 2003, the staff headcount was approximately 71, as compared to approximately 67 as at 31st December 2002.

The management recognizes that knowledgeable and experienced employees are valuable assets of the Group and offers competitive remuneration package to competent staff. Our remuneration package includes basic salaries, bonus, contributions to provident fund and medical benefits. The Group conducts salary review annually based on the performance of individual staff. The Group also provides suitable job-related training to relevant employees.

Contingent Liabilities

As at 31st December 2003, no material contingent liabilities were noted except that the Company had provided corporate guarantees of approximately HK\$54.2 million (2002: approximately HK\$58.4 million) to financial institutions for banking facilities utilized by its subsidiaries.