

# Notes to Accounts

## 1. Principal accounting policies

### (a) Basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice No. 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy is set out below:

#### Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Consolidated Statement of Changes in Equity and reserves movement in Note 22, the opening shareholders' funds/reserves at 1st January 2002 and 2003 have been reduced by approximately HK\$680,000 and HK\$850,000 respectively, which represent prior year adjustment resulting from the unprovided deferred tax liability on the taxable temporary difference of the Group's investment property. This change has resulted in the recognition of deferred tax liability at 31st December 2001 and 2002 of approximately HK\$680,000 and HK\$850,000 respectively. The profits credited to reserves for the year ended 31st December 2002 have been reduced by the deferred tax charge of HK\$170,000.

# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the company, directly or indirectly, controls the composition of the board of directors; has the power to govern the financial and operating policies; controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Translation of foreign currencies

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts in Hong Kong dollars. Accounts of foreign consolidated subsidiaries are translated at year-end exchange rate with respect to the balance sheet, and at an average rate for the year with respect to the profit and loss account. Exchange differences arising from such translations are dealt with as movements of exchange reserve.

# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (c) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

#### (i) *Sales of goods*

Sales of goods are recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

#### (ii) *Operating lease rental income*

Operating lease rental income is recognised on a straight-line basis over the lease term.

#### (iii) *Agency service fees and commission income*

Agency service fees and commission income are recognised when the related services are rendered.

#### (iv) *Interest income*

Interest income from bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

### (d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is provided on a straight-line basis at an annual rate estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Leasehold improvements	25%
Furniture, fixtures and equipment	12.5% — 25%
Plant and machinery	20% — 33%

The useful lives of assets and depreciation method are reviewed periodically.

# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (e) Intangibles

#### (i) *Goodwill/negative goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisition is amortised using the straight-line method over its estimated useful life of 5 years.

Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

#### (ii) *Other intangible assets*

Other intangible assets are measured initially at cost. Other intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year end. The estimated useful life is as follows:

Computer software	3 - 5 years
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### (f) Investment property

Investment property is interests in land and buildings in respect of which construction work and development have been completed and which are held for their long-term investment potential, any rental income being negotiated at arm's length.

# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (f) Investment property *(Continued)*

Investment property is included in the balance sheet at its open market value, on the basis of an annual valuation by independent qualified valuers. Increases in the carrying amount of investment properties are credited to the revaluation reserve in shareholders' equity. Decreases are first offset against increases on earlier valuations on a portfolio basis and are thereafter charged to the profit and loss account. Increases on revaluations directly related to a previous decrease in carrying amount for the same property that was recognised as an expense is credited to income to the extent that it offsets the previously recorded decrease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve is credited to the profit and loss account as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

### (g) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, intangible assets and investments in subsidiaries are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of an asset included in fixed assets, intangible assets or investments in subsidiaries is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (h) Other investments

Other investments are carried of fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.



# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (i) Inventories

Inventories are stated at the lower of actual cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made.

### (m) Operating leases

Leases from which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the profit and loss account in the period in which they are incurred.

### (n) Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the accounts. Post-year-end events that are not adjusting events are disclosed in the notes when material.

# Notes to Accounts

## 1. Principal accounting policies *(Continued)*

### (o) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

#### (ii) *Bonus plans*

Provision for bonus plans due wholly within twelve months after balance sheet are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) *Pension obligations*

The Group operates a defined contribution pension scheme for its employees; the assets of which are held separately from those of the Group in an independently administered fund. The Group's contributions to the defined contribution pension schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The employees of the Company's subsidiaries in the People's Republic of China ("PRC") and Taiwan are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

### (p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Segment information on business and geographical segments is presented in Note 2 to the accounts.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for based on mutually agreed transfer prices and are eliminated on consolidation.

# Notes to Accounts

## 2. Segment Information

### (a) By business segment

The Group is primarily engaged in (i) the design, distribution and trading of integrated circuit products and provision of related agency services, (ii) investment property holding and (iii) investment holding.

	2003					Restated 2002 (Note 30)						
	Design, distribution and trading of integrated circuit products and provision of related agency services HK\$'000	Investment property holding HK\$'000	Investment holding HK\$'000	Unallocated amounts HK\$'000	Eliminations HK\$'000	Total HK\$'000	Design, distribution and trading of integrated circuit products and provision of related agency services HK\$'000	Investment property holding HK\$'000	Investment Holding HK\$'000	Unallocated amounts HK\$'000	Eliminations HK\$'000	Total HK\$'000
Turnover												
External	117,380	4,320	—	—	—	121,700	70,109	6,124	—	—	—	76,233
Inter-segment	—	—	—	—	—	—	—	—	—	—	—	—
Total turnover	117,380	4,320	—	—	—	121,700	70,109	6,124	—	—	—	76,233
Cost of sales												
External	(81,743)	—	—	—	—	(81,743)	(56,798)	—	—	—	—	(56,798)
Inter-segment	—	—	—	—	—	—	—	—	—	—	—	—
Gross profit	35,637	4,320	—	—	—	39,957	13,311	6,124	—	—	—	19,435
Other revenue												
External	849	13	248	—	—	1,110	36	23	260	—	—	319
Inter-segment	26	—	6,826	—	(6,852)	—	—	—	35,439	—	(35,439)	—
	875	13	7,074	—	(6,852)	1,110	36	23	35,699	—	(35,439)	319



# Notes to Accounts

## 2. Segment Information (Continued)

### (a) By business segment (Continued)

	2003					Restated 2002 (Note 30)						
	Design, distribution and trading of integrated circuit products and provision of related agency services HK\$'000	Investment property holding HK\$'000	Investment holding HK\$'000	Unallocated amounts HK\$'000	Eliminations HK\$'000	Total HK\$'000	Design, distribution and trading of integrated circuit products and provision of related agency services HK\$'000	Investment property holding HK\$'000	Investment Holding HK\$'000	Unallocated amounts HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment expenses												
Distribution costs	(3,242)	—	—	—	—	(3,242)	(3,975)	—	—	—	—	(3,975)
General and administrative expenses	(29,538)	(1,887)	(6,332)	—	9,496	(28,261)	(24,721)	(2,780)	(4,556)	(2)	4,629	(27,430)
Other operating income	1,882	85	213,756	—	726	216,449	1,665	—	20,309	800	—	22,774
Profit/(loss) from operations	5,614	2,531	214,498	—	3,370	226,013	(13,684)	3,367	51,452	798	(30,810)	11,123
Finance costs						(1,627)						(2,405)
Profit before tax						224,386						8,718
Taxation						(1,494)						(564)
Profit before minority interests						222,892						8,154
Minority interests						(6,180)						3,585
Net profit attributable to shareholders						216,712						11,739
Total segment assets	105,941	54,467	303,652	10,253	—	474,313	85,313	58,798	110,013	(1,062)	—	253,062
Total segment liabilities	35,406	2,298	1,613	54,151	—	93,468	27,020	1,920	754	63,765	—	93,459
Capital expenditures for segment assets	1,649	—	—	—	—	1,649	7,531	—	—	—	—	7,531
Depreciation and amortisation	6,461	—	11	—	—	6,472	6,995	—	14	—	—	7,009
Provision for inventory obsolescence	4,209	—	—	—	—	4,209	2,125	—	—	—	—	2,125
Provision for doubtful debts	830	—	—	—	—	830	127	—	—	—	—	127

# Notes to Accounts

## 2. Segment Information *(Continued)*

### (b) By geographical location:

	Turnover		Contribution to net profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	4,320	6,124	4,320	6,124
Taiwan	106,616	63,656	29,977	9,270
The People's Republic of China	10,764	6,453	5,660	4,041
	<u>121,700</u>	<u>76,233</u>	<u>39,957</u>	<u>19,435</u>
Other revenues			1,110	319
Income/(expenses), net			<u>183,319</u>	<u>(11,036)</u>
Profit before tax			<u>224,386</u>	<u>8,718</u>

## 3. Other revenues

Analysis of other revenues is as follows:

	2003 HK\$'000	2002 HK\$'000
Interest income	623	412
Exchange gain/(loss), net	353	(293)
Others	134	200
	<u>1,110</u>	<u>319</u>

# Notes to Accounts

## 4. Other operating income

	2003 HK\$'000	2002 HK\$'000
Unrealised gain arising from mark-to-market valuation of other investments, net	213,571	17,263
Recovery of bad debts previously written off	392	345
Negative goodwill recognised as income	800	800
Goodwill amortization charge	(74)	—
Refund of withholding tax on dividend income received from overseas other investments in prior years	—	1,539
Realised gain on other investments	185	1,317
Gain on disposal of product licensing rights	1,437	723
Gain on disposal of testing boards and testing programs expensed off in prior years	—	826
Others	138	(39)
	<b>216,449</b>	<b>22,774</b>

## 5. Profit before tax

Profit before tax was determined after charging and crediting the following items:

	2003 HK\$'000	2002 HK\$'000
<b>Charging:</b>		
Auditors' remuneration		
— underprovision in prior years	65	31
— current year	926	954
Depreciation of fixed assets	4,070	3,342
Amortisation of intangible assets		
— computer software	2,402	3,667
— goodwill	74	—
Intangible assets written off	2,381	—
Staff costs (including directors' and senior executives' emoluments)		
— salaries and wages	14,051	14,819
— provision for staff and workers' bonus and welfare fund	607	1,030
— contributions to defined contribution plan	81	109
	<b>14,739</b>	<b>15,958</b>
Operating lease rentals in respect of land and buildings	1,608	1,710
Loss on disposal of fixed assets, net	—	1,856
Provision for inventory obsolescence	4,209	2,125
Research costs	8,374	13,210
Unrealised loss arising from mark-to-market valuation of other investments	—	241
Interest expenses on bank loans and overdrafts	1,627	2,405
Provision for doubtful debts	830	127
Exchange loss, net	—	293
Deficit on revaluation of investment property (Note 10)	306	—

# Notes to Accounts

## 5. Profit before tax (Continued)

	2003 HK\$'000	2002 HK\$'000
<b>Crediting:</b>		
Gross rental income from investment property	4,320	6,124
Less: Outgoings	(483)	(407)
	<u>3,837</u>	<u>5,717</u>
Unrealised gain arising from mark-to-market valuation of other investments	213,571	17,504
Realised gain on other investments	185	1,317
Recovery of bad debts previously written off (Note 4)	392	345
Exchange gain, net	353	—
Interest income		
— bank deposits	365	412
— non-convertible corporate bonds (Note 28)	255	—
	<u>255</u>	<u>—</u>

## 6. Directors' and senior executives' emoluments

### (a) Details of directors' emoluments are:

	2003 HK\$'000	2002 HK\$'000
Fees for executive directors	—	—
Fees for non-executive directors	200	200
Other emoluments for executive directors		
— basic salaries and allowances	—	—
— provident fund contributions	—	—
	<u>200</u>	<u>200</u>

The executive directors waived their emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2003	2002
Nil to \$1,000,000	5	5
\$1,000,001 to \$1,500,000	—	—
\$1,500,001 to \$2,000,000	—	—
	<u>5</u>	<u>5</u>

# Notes to Accounts

## 6. Directors' and senior executives' emoluments (Continued)

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	2003 HK\$'000	2002 HK\$'000
Basic salaries and allowances	2,901	2,756
Bonus	63	244
Contributions to provident fund	62	89
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	3,026	3,089

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as inducement to join or as compensation for loss of office.

Analysis of emoluments paid to the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2003	2002
Nil to \$1,000,000	4	4
\$1,000,001 to \$1,500,000	1	1
\$1,500,001 to \$2,000,000	—	—
	<hr/>	<hr/>
	5	5

None (2002: None) of the five highest paid individuals was a director of the Company, whose emoluments have been included in Note 6.a.



# Notes to Accounts

## 7. Taxation

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation		
— Hong Kong profits tax	54	180
— Overseas taxation	1,210	214
— Overprovision in prior years	(30)	—
Deferred taxation		
— relating to taxable temporary differences	180	170
— resulting from an increase in tax rate	80	—
	1,494	564

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	224,386	8,718
Calculated at a taxation rate of 17.5% (2002: 16%)	39,268	1,395
Effect of different taxation rates in other countries	679	(448)
Tax loss of subsidiaries not recognised	801	1,958
Utilisation of previously unrecognised tax losses	(2,461)	—
Effect of non-taxable unrealised gain arising from mark-to-market valuation of other investments	(37,007)	(2,583)
Effect of depreciation allowance for taxation purpose	(186)	(142)
PRC withholding tax	140	214
Effect of deferred tax relating to taxable temporary differences	180	170
Increase in opening net deferred tax liability resulting from an increase in tax rate	80	—
Taxation charge	1,494	564

## 8. Net profit attributable to shareholders

The consolidated profit attributable to shareholders includes a net profit of approximately HK\$211,459,000 (2002: HK\$46,198,000 ) dealt with in the accounts of the Company.

# Notes to Accounts

## 9. Earnings per share

The calculation of basic earnings per share for the year ended 31st December 2003 is based on the consolidated net profit attributable to shareholders of approximately HK\$216,712,000 (2002 restated: HK\$11,739,000) and 336,587,142 shares (2002: 336,587,142 shares) in issue during the year.

Diluted earnings per share is not presented as there is no dilutive effect on the earnings per share.

## 10. Investment property

Group	HK\$'000
At 1st January 2003	56,000
Deficit on revaluation	
— Charge to investment property revaluation reserve	(3,694)
— Charge to profit and loss account	<u>(306)</u>
At 31st December 2003	<u>52,000</u>

The Group's investment property is situated at 18 Lee Chung Street, Chai Wan, Hong Kong under a remaining lease term of between 10 to 50 years. The property is rented out under operating leases.

The Group's investment property was revalued on 31st December 2003 by Vigers Hong Kong Limited, an independent qualified valuer, at its open market value on an existing use basis.

As a result of the revaluation, a decrease in value of the Group's investment property of approximately HK\$3,694,000 (2002: HK\$7,000,000) was charged to the investment property revaluation reserve (Note 22). The remaining deficit on revaluation of approximately HK\$306,000 not covered by previous revaluation surplus was charged to the profit and loss account for the year (Note 5).

As at 31st December 2003, the Group's investment property was mortgaged to the bank as security for banking facilities granted (Note 27).

# Notes to Accounts

## 11 Other fixed assets

Group	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>				
At 1st January 2003	1,068	5,750	12,342	19,160
Additions	—	85	1,564	1,649
Effect of foreign exchange rate changes	—	(43)	(54)	(97)
At 31st December 2003	<u>1,068</u>	<u>5,792</u>	<u>13,852</u>	<u>20,712</u>
<b>Accumulated depreciation</b>				
At 1st January 2003	1,068	3,494	1,945	6,507
Charge for the year	—	406	3,664	4,070
Effect of foreign exchange rate changes	—	(28)	(9)	(37)
At 31st December 2003	<u>1,068</u>	<u>3,872</u>	<u>5,600</u>	<u>10,540</u>
<b>Net book value</b>				
At 31st December 2003	<u>—</u>	<u>1,920</u>	<u>8,252</u>	<u>10,172</u>
At 31st December 2002	<u>—</u>	<u>2,256</u>	<u>10,397</u>	<u>12,653</u>

# Notes to Accounts

## 11 Other fixed assets (Continued)

### Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2003/31st December 2003	1,074	515	1,589
Accumulated depreciation			
At 1st January 2003	1,074	494	1,568
Charge for the year	—	11	11
At 31st December 2003	1,074	505	1,579
Net book value			
At 31st December 2003	—	10	10
At 31st December 2002	—	21	21

## 12. Intangible assets

### Group

	Computer software <i>HK\$'000</i>
Cost	
At 1st January 2003	15,855
Additions	—
Write-off	(5,143)
Effect of foreign exchange rate changes	(75)
At 31st December 2003	10,637
Accumulated amortisation	
At 1st January 2003	8,405
Charge for the year	2,402
Write-off	(2,762)
Effect of foreign exchange rate changes	(51)
At 31st December 2003	7,994
Net book value	
At 31st December 2003	2,643
At 31st December 2002	7,450

# Notes to Accounts

## 13. Goodwill/(negative goodwill)

### Group

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book amount			
At 1st January 2003	—	(1,337)	(1,337)
Acquisition of minority interests in a subsidiary	4,465	—	4,465
Negative goodwill amortisation for the year	—	800	800
Goodwill amortisation charge for the year	(74)	—	(74)
At 31st December 2003	<u>4,391</u>	<u>(537)</u>	<u>3,854</u>

In December 2003, the Group acquired all the minority equity interests in the subsidiary (Note 14) for a consideration of approximately HK\$1,170,000. The acquisition gave rise to a positive goodwill of approximately HK\$4,465,000.

## 14. Investments in subsidiaries

In the Company's balance sheet, investments in subsidiaries comprised:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	88,010	88,010
Amounts due from subsidiaries	<u>90,629</u>	<u>94,207</u>
	178,639	182,217
Less: Provision for impairment in value	<u>(15,404)</u>	<u>(22,873)</u>
	<u>163,235</u>	<u>159,344</u>

Except for the outstanding balance with Wellba Investment Limited which bore interest at 8% (2002: 8%) per annum, all other outstanding balances with subsidiaries were unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries have become financially capable to do so.

The underlying values of investments in subsidiaries were, in the opinion of the Directors, not less than the Company's carrying values as at 31st December 2003.



# Notes to Accounts

## 14. Investments in subsidiaries (Continued)

Details of the subsidiaries as at 31st December 2003 were as follows:

Name	Place of incorporation	Issued and fully paid capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly held	Indirectly held	
Win Win Property Investments Limited	British Virgin Islands	US\$1 ordinary	100%	—	Investment holding
Wellba Investment Limited	Hong Kong	HK\$2 ordinary HK\$2,000,001 non-voting deferred	—	100%	Investment property holding
Rockey Company Limited	Hong Kong	HK\$2 ordinary	100%	—	Investment holding
Harvest Century Enterprises Limited	Hong Kong	HK\$10,000 ordinary	100%	—	Inactive
SyncMOS Technologies, Inc. (BVI)	British Virgin Islands	US\$1 ordinary	100%	—	Investment holding
Shanghai SyncMOS Semiconductor Company Limited	Shanghai, the People's Republic of China (the "PRC")	US\$5,000,000 ordinary	—	100%	Design, distribution and trading of integrated circuit products and provision of related agency services
SyncMOS Technologies, Inc. (Cayman Islands)	Cayman Islands	US\$1 ordinary	100%	—	Inactive
新茂國際科技股份有限公司 有限公司	Taiwan	NT\$320,000,000 ordinary	—	55%	Design, distribution and trading of electronic materials and components and provision of related agency services

# Notes to Accounts

## 14. Investments in subsidiaries (Continued)

In December 2003, the Group acquired all the minority equity interests in Shanghai SyncMOS Semiconductor Company Limited, which increased the Group's equity interests from 70% to 100%.

The following subsidiaries were deregistered during the year:

Name	Place of incorporation	Issued and fully paid capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly held	Indirectly held	
Ryder Properties Limited	British Virgin Islands	US\$1 ordinary	100%	—	Inactive
總茂電子技術(深圳)有限公司	Shenzhen, the PRC	US\$1,000,000 ordinary	—	100%	Inactive

## 15. Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	2,475	1,035
Work-in-progress	10,546	18,050
Finished goods	8,249	5,179
	<b>21,270</b>	<b>24,264</b>
Less: Provision for inventory obsolescence	<b>(8,719)</b>	<b>(6,453)</b>
	<b>12,551</b>	<b>17,811</b>

Of the amount stated above, the amount of inventories carried at net realisable value is approximately HK\$4,834,000 (2002: HK\$1,917,000).

# Notes to Accounts

## 16. Accounts receivable

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accounts receivable	15,757	14,829
Less: Provision for doubtful debts	(1,318)	(1,364)
	<b>14,439</b>	<b>13,465</b>

Aging analysis of accounts receivable less provision for doubtful debts is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 - 90 days	14,439	13,415
91 - 180 days	—	50
	<b>14,439</b>	<b>13,465</b>

The Group normally grants credit periods to customers ranging from 30 days to 90 days.

## 17 Other investments

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Listed equity securities in the United States	293,502	80,017	293,502	80,017
Listed equity securities in Hong Kong	35	25	—	—
Listed short-term investment funds in Taiwan	8,703	22,751	—	—
	<b>302,240</b>	<b>102,793</b>	<b>293,502</b>	<b>80,017</b>
Quoted market value for listed equity securities	<b>302,240</b>	<b>102,793</b>	<b>293,502</b>	<b>80,017</b>

# Notes to Accounts

## 17 Other investments (Continued)

Particulars of the listed investments disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of investee	Place of incorporation	Percentage of shares held	Class of shares held
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	5%	Ordinary

ChipMOS is principally engaged in the provision of semiconductor testing and assembly services in Taiwan and to overseas customers.

At 31st December 2003, the quoted market value of ChipMOS was approximately US\$9.4 (2002: US\$2.5) (equivalent to HK\$73.2 (2002: HK\$20.0)) per share.

## 18. Accounts payable and accruals

Included in accounts payable and accruals were accounts payable, accrued charges and other payables as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accounts payable	16,887	17,938	—	—
Accrued charges and other payables	8,284	9,030	718	755
	<b>25,171</b>	<b>26,968</b>	<b>718</b>	<b>755</b>

Aging analysis of accounts payable is as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
0 — 90 days	16,148	17,853	—	—
91 — 180 days	—	—	—	—
181 — 365 days	—	—	—	—
Over 365 days	739	85	—	—
	<b>16,887</b>	<b>17,938</b>	<b>—</b>	<b>—</b>

# Notes to Accounts

## 19. Long-term bank loans

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loans		
Unsecured	—	—
Secured	34,650	38,850
	<hr/>	<hr/>
	34,650	38,850
Current portion of long-term bank loans	(4,200)	(4,200)
	<hr/>	<hr/>
	30,450	34,650

At 31st December 2003, the Group's bank loans were repayable as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	4,200	4,200
In the second year	4,200	4,200
In the third to fifth year inclusive	12,600	12,600
After the fifth year	13,650	17,850
	<hr/>	<hr/>
	34,650	38,850

The long-term bank loans were secured and interest bearing at prevailing market rates (Note 27).

## 20. Short-term bank loans

As at 31st December 2003, the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year (Note 27).

## 21. Share capital

	Number of shares	Nominal value <i>HK\$'000</i>
Authorised —		
Ordinary shares of HK\$0.1 each	500,000,000	50,000
	<hr/>	<hr/>
Issued and fully paid —		
Ordinary shares of HK\$0.1 each	336,587,142	33,659
	<hr/>	<hr/>



# Notes to Accounts

## 22. Reserves

### Group

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated (losses)/ retained earnings HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	101,263	3,694	(2,510)	(3,325)	99,122
Effect of adopting SSAP 12 (Note 1)	—	—	—	(850)	(850)
At 1st January 2003, as restated	101,263	3,694	(2,510)	(4,175)	98,272
Deficit on revaluation of investment property	—	(3,694)	—	—	(3,694)
Exchange adjustment on translation of the accounts of overseas subsidiaries	—	—	(283)	—	(283)
Profit for the year	—	—	—	216,712	216,712
At 31st December 2003	101,263	—	(2,793)	212,537	311,007
At 1st January 2002, as previously reported	101,263	10,694	(2,757)	(15,234)	93,966
Effect of adopting SSAP 12 (Note 1)	—	—	—	(680)	(680)
At 1st January 2002, as restated	101,263	10,694	(2,757)	(15,914)	93,286
Deficit on revaluation of investment property	—	(7,000)	—	—	(7,000)
Exchange adjustment on translation of the accounts of overseas subsidiaries	—	—	247	—	247
Profit for the year	—	—	—	11,739	11,739
At 31st December 2002	101,263	3,694	(2,510)	(4,175)	98,272

# Notes to Accounts

## 22. Reserves (Continued)

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Accumulated (losses)/ retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	101,263	137,800	20,566	(61,863)	197,766
Profit for the year	—	—	—	211,459	211,459
At 31st December 2003	101,263	137,800	20,566	149,596	409,225
At 1st January 2002	101,263	137,800	20,566	(108,061)	151,568
Profit for the year	—	—	—	46,198	46,198
At 31st December 2002	101,263	137,800	20,566	(61,863)	197,766

The contributed surplus of the Company represents the excess of the net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

The share premium and capital reserve are not distributable under Bermuda Company Law and the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$287,396,000 (2002: HK\$75,937,000).

# Notes to Accounts

## 23. Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%)

The movement on the deferred tax liability is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1st January	850	680
Deferred taxation charged to the profit and loss account		
— relating to taxable temporary difference	180	170
— resulting from an increase in tax rate	80	—
At 31st December	1,110	850

The deferred tax liability represents temporary difference on the Group's investment property.

Deferred tax assets are recognised for tax loss carry forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31st December 2003, the Group has unused tax losses of approximately HK\$62 million (2002: HK\$67 million). The tax losses are subject to approval of the relevant tax authorities in respective jurisdictions. No related deferred tax asset has been recognised (2002: Nil) as the Directors are of the opinion that it is not probable that there will be taxable profit or temporary differences against which the deferred tax asset can be utilised in the foreseeable future. Included in the unrecognised tax losses are losses of approximately HK\$17 million (2002: HK\$27 million) that will expire as follows:

Expiry	Tax losses <i>HK\$'million</i>
2004	3
2005	1
2006	7
2007	3
2008	3
	17

# Notes to Accounts

## 24. Share option scheme

On 25th January 1994, a share option scheme was approved by the shareholders of the Company, under which the Directors may, at their discretion, invite employees of the Group, including senior executives and directors, to take up options to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. During the year, no new share options were granted. As at 31st December 2003, the total number of share options granted was Nil (2002: 9,000,000). Subsequent to year end, the scheme expired on 24th January 2004, after being in force for ten years from 25th January 1994, being the date of its adoption.

Details of the share options movement for the year ended at 31st December 2003 were as follows:

Name of participant	Date of grant	Exercise period	Subscription price per share	Number of share options		
				Beginning of year	Expired during the year	End of year
<i>Director</i> Seto Yee Woon, John	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	5,000,000	(5,000,000)	—
<i>Director</i> Pang Hong	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	1,500,000	(1,500,000)	—
<i>Senior executive</i> Chang Chueh Pin	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	2,500,000	(2,500,000)	—
				9,000,000	(9,000,000)	—

# Notes to Accounts

## 25. Notes to consolidated statement of cash flows

### (a) Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities:

	2003 HK\$'000	2002 HK\$'000
Profit before tax	224,386	8,718
Unrealised gain arising from mark-to-market valuation of other investments, net	(213,571)	(17,263)
Loss on disposal of fixed assets	—	1,856
Gain on disposal of other investments	(185)	(1,317)
Interest income	(623)	(412)
Interest expense	1,627	2,405
Depreciation of fixed assets	4,070	3,342
Amortization of intangible assets	2,402	3,667
Intangible assets written off	2,381	—
Amortization of positive goodwill	74	—
Recognition of negative goodwill as other operating income	(800)	(800)
Deficit on revaluation of investment property	306	—
Decrease/(increase) in inventories	5,260	(4,117)
Increase in accounts receivable	(974)	(12,294)
Decrease in notes receivable	—	209
Decrease in prepayments, deposits and others	350	9,199
Decrease in amounts due from related companies	135	845
Decrease/(increase) in amount due from a minority shareholder	95	(1)
Increase in restricted cash deposits	(84)	(1,646)
Decrease in pledged deposits	3,130	772
Decrease/(increase) in long-term deposits	213	(6)
(Decrease)/increase in accounts payable and accruals	(1,736)	2,712
Increase/(decrease) in amounts due to related companies	8,643	(6,001)
(Decrease)/increase in amount due to minority shareholders	(990)	277
Net cash inflow/(outflow) generated from operations	<u>34,109</u>	<u>(9,855)</u>

### (b) Analysis of changes in financing during the year:

	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Minority interests HK\$'000	2003 Total HK\$'000	2002 Total HK\$'000
Beginning of year	38,850	23,157	26,822	88,829	103,176
Exchange differences	—	—	—	—	7
Additional loan/drawdown	—	4,253	—	4,253	42,019
Repayment of loans	(4,200)	(7,910)	—	(12,110)	(53,043)
Minority interests' share of net profit/(loss)	—	—	6,180	6,180	(3,585)
Minority interests' share of exchange reserve	—	—	(124)	(124)	255
Effect of acquisition of minority interests in a subsidiary	—	—	3,301	3,301	—
End of year	<u>34,650</u>	<u>19,500</u>	<u>36,179</u>	<u>90,329</u>	<u>88,829</u>

# Notes to Accounts

## 26. Commitments

### Operating lease commitments

As at 31st December 2003, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total future minimum lease payments payable:		
— Not later than 1 year	1,513	1,513
— Later than 1 year and not later than 5 years	113	113
	<u>1,626</u>	<u>1,626</u>

The investment property of the Group is rented under operating leases. As at 31st December 2003, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total future minimum lease payments receivable:		
— Not later than 1 year	2,915	3,426
— Later than 1 year and not later than 5 years	1,230	1,961
	<u>4,145</u>	<u>5,387</u>

## 27. Banking facilities

As at 31st December 2003, the Group had aggregate banking facilities of approximately HK\$134,650,000 (2002: HK\$142,507,000 ). Unused facilities as at the same date amounted to approximately HK\$80,500,000 (2002: HK\$80,500,000 ). These facilities were secured by:

- (a) Bank deposits of approximately HK\$781,000 (2002: HK\$3,911,000 );
- (b) First mortgage of the Group's investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong in favour of the bank (Note 10);
- (c) Assignment of rentals and rental deposits and the creation of a charge on such monies in respect of the mortgaged investment property as mentioned in (b) above. As at 31st December 2003, such amount of restricted cash deposits was approximately HK\$1,730,000 (2002: HK\$1,646,000);
- (d) First mortgage in favor of the bank over certain properties held by related companies;
- (e) The Company's corporate guarantee for the amount drawn as at 31st December 2003 of HK\$34,650,000 (2002: HK\$38,850,000), in respect of the Group's long-term bank loans; and



# Notes to Accounts

## 27. Banking facilities *(Continued)*

- (f) Corporate guarantees from related companies and the Company's corporate guarantee for any amount drawn by a subsidiary of the Company, Harvest Century Enterprise Limited, in respect of the HK\$100,000,000 banking facilities jointly held with a related company ("Joint Banking Facilities") as mentioned in the next paragraph.

The Joint Banking Facilities are available for usage by the Group and to the extent of any unused portion by the Group, by the related company. As at 31st December 2003, HK\$19,500,000 (2002: HK\$19,500,000) were drawn by the Group (Note 28.f).

## 28. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the year, the Group entered into transactions with the following related companies - Fong Wing Shing Construction Company Limited ("Fong Wing Shing"), PCL Holdings Limited ("PCL") and Mosel Vitelic Inc. ("MVI").

	Note	2003 HK\$'000	2002 HK\$'000
Rental income from Fong Wing Shing <sup>1</sup>	(i)	324	461
Rental income from PCL <sup>1</sup>	(i)	1,182	1,203
Manufacturing service fees payable to MVI <sup>2</sup>	(ii)	13,205	12,586
Purchase of fixed assets from MVI		—	6,241
Rental payable to MVI	(iii)	759	762
Management fees payable to MVI	(iii)	479	460
Information system service fees payable to MVI	(iv)	409	410
Product-testing fees payable to MVI	(iv)	146	695

- (i) The rental was charged to related companies under normal commercial terms based on the floor area occupied.

- (ii) The independent non-executive directors reviewed and confirmed that the manufacturing service fees payable to MVI under the Foundry Agreement were conducted:

- (a) on normal commercial terms and in the ordinary and usual course of business of the Company; and
- (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.



# Notes to Accounts

## 28. Related party transactions *(Continued)*

### (a) *(Continued)*

(iii) The rental and management fees payable to MVI were charged on normal commercial terms by reference to open market rental as appraised by an independent valuer for comparable premises.

(iv) The product-testing fee was charged at cost by MVI in respect of its staff assigned to the JV Co; whilst the information system service fee was charged at a monthly fixed amount of approximately HK\$34,000.

(b) Investment of approximately NT\$110,000,000 were made for the period from 25th April to 30th June 2003 in non-convertible corporate bonds issued by MVI. The corporate bonds, which the Group purchased at par value from the open market, bore interest at 5.7% per annum, payable quarterly in arrears. On 30th June 2003, the corporate bonds were redeemed by MVI at par value of NT\$110,000,000. Interest income of approximately HK\$255,000 was received for the period of investment.

(c) Amounts due from related companies as at 31st December 2003 were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Fong Wing Shing	—	3	—	—
PCL	—	135	—	—
MVI	193	190	3	3
	<b>193</b>	<b>328</b>	<b>3</b>	<b>3</b>

(d) Amounts due to related companies as at 31st December 2003 were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Fong Wing Shing	63	63	—	—
PCL	222	223	—	1
MVI	11,111	2,406	—	—
	<b>11,396</b>	<b>2,692</b>	<b>—</b>	<b>1</b>

1 Fong Wing Shing Construction Company Limited and PCL Holdings Limited are two companies over which Mr. Yip Chi Hung and Mr. Pang Hong, who are Directors, are in a position to exercise significant influence.

2 MVI is an indirect substantial shareholder of the Company.

# Notes to Accounts

## 28. Related party transactions *(Continued)*

- (e) The outstanding balances with related companies and amounts due to subsidiaries were all unsecured, interest free and repayable within one year.
- (f) Joint Banking Facilities

As at 31st December 2003, the Group had Joint Banking Facilities with a related company of HK\$100,000,000. The Joint Banking Facilities were secured by a first mortgage in favour of the bank over certain properties held by related companies, corporate guarantees from related companies and the Company. The Company's corporate guarantee is limited to any amount drawn by a subsidiary of the Company under the Joint Banking Facilities (Note 27).

## 29. Contingent Liabilities

As at 31st December 2003, the Company had provided corporate guarantees of HK\$54,150,000 (2002: HK\$58,350,000) to financial institutions in respect of banking facilities utilised by its subsidiaries.

## 30. Comparative Figures

The comparative figures presented herewith have incorporated the effect of prior year adjustment resulting from the adoption of SSAP 12 (see Note 1).

## 31. Approval of accounts

The accounts were approved by the board of directors on 16th April 2004.