

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31st December 2004, the cash and cash equivalents held by the Group was approximately HK\$59.1 million (2003: approximately HK\$70.3 million).

For the year ended 31st December 2004, the Group recorded a net cash outflow of approximately HK\$11.2 million, in which HK\$19.5 million was cash outflow from operating activities.

As at 31st December 2004, total bank loans of the Group was amounted to approximately HK\$50.0 million (2003: approximately HK\$54.2 million). Subsequent to the year end in March 2005, the Group sold its investment property in Hong Kong and discharged the related mortgage liability of approximately HK\$30.5 million.

Gearing Ratio

During the year, the Group incurred finance costs of approximately HK\$1.2 million (2003: approximately HK\$1.6 million).

The gearing ratio of the Group, defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was approximately 22.1% (2003: approximately 19.7%).

Foreign Currency Exposure

For the year under review, the Group recorded a net exchange loss of approximately HK\$1.5 million, mainly due to year end evaluation of foreign currencies held, and an exchange adjustment of approximately HK\$2.8 million was credited to exchange reserve upon translation of the accounts of overseas operations.

The management will monitor the Group's investments and borrowings carefully to ensure that they are substantially in match.

Capital Structure

The total shareholders' funds of the Group as at 31st December 2004 was approximately HK\$256.1 million (2003: approximately HK\$344.7 million). The net loss attributable to shareholders of approximately HK\$91.4 million was debited to reserves. No issue or repurchase of the Company's shares were made during the year.

Investments and Capital Assets

No material capital investments were made during the year. Total additions to fixed assets and intangible assets were approximately HK\$1.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Investments and Capital Assets *(Continued)*

As at 31st December 2004, the share price of ChipMOS Technologies (Bermuda) Limited ("ChipMOS"), the Group's major other investment which is listed in NASDAQ was approximately US\$6.37 per share as compared to that as at 31st December 2003 of approximately US\$9.39 per share. An unrealised loss of approximately HK\$94 million was recorded due to mark to market valuation of the investment. ChipMOS is an independent provider of semiconductor testing and assembly services to customers in Taiwan, Japan and the United States. In accordance with its latest results announcement, ChipMOS achieved an unaudited net income of approximately US\$53 million for the year ended 31st December 2004 with earnings per share of approximately US\$0.84. On 22nd April 2005, the quoted market price of ChipMOS was approximately US\$6.7. The management considers that, the value of ChipMOS is not fully reflected in its share price. As disclosed in the latest annual report of ChipMOS, Mosel Vitelic Inc. ("MVI"), an indirect substantial shareholder of the Company, owned approximately 44% of the equity shares of ChipMOS.

In November 2004, the Group sold the investment property in Hong Kong to an independent third party at a price of HK\$51.7 million. The sale was completed on 10th March 2005 subsequent to the year end. Given that the property is an industrial building, the level of rental income that can be obtained have been relatively low. The management, therefore, decided to sell the property in order to repay the outstanding mortgage loan of approximately HK\$30.5 million, in view of expecting a rising trend of Hong Kong interest rates.

We have written off the remaining balance of the goodwill arisen on acquisition of the minority interests in Shanghai SyncMOS Semiconductor Company Limited, the operating arm of the Group in the People's Republic of China. The amount written off to profit and loss account was approximately HK\$3.5 million.

Charge on Assets

The investment property in Hong Kong held by the Group was mortgaged to a bank with outstanding loan of approximately HK\$30.5 million as at 31st December 2004. Rentals and rental deposits of approximately HK\$2.2 million of the investment property was also assigned to the bank.

Subsequent to the year end, the investment property was sold and the mortgage was discharged.

Segmental Information

For the year under review, the business operations in Taiwan contributed approximately 93% (2003: approximately 88%) of the Group's turnover and approximately 83% (2003: approximately 75%) of the Group's gross profit. Please refer to note 2 to the financial statements for more details.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As a Group focusing on integrated circuit products design, the management treasures experienced and knowledgeable staff to meet the challenging business environment. We offer competitive remuneration package to competent staff including basic salaries, bonus, contributions to provident fund and medical benefits. Staff salaries are reviewed annually with reference to market level and individual staff performance.

Contingent Liabilities

Except that the Company had provided corporate guarantee for the amount drawn of approximately HK\$30.5 million (2003: approximately HK\$34.7 million) in respect of the Group's long term bank loan, no material contingent liabilities were noted as at 31st December 2004.