

NOTES TO ACCOUNTS

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and other investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(i) Consolidation *(Continued)*

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

In the accounts of individual companies, transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

For the purpose of consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) 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)*

(c) Fixed assets *(Continued)*

(i) Investment property *(Continued)*

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis and are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

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.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture and equipment and plant and machinery, are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, the carrying amount of the asset is reduced to its recoverable amount.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(c) Fixed assets *(Continued)*

(ii) Other fixed assets *(Continued)*

The gain or loss on disposal of a fixed asset 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.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under an operating lease net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangible assets

(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.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. 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 profit and loss account 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 profit and loss account 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 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.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(e) Intangible assets *(Continued)*

(ii) Other intangible assets *(Continued)*

Other intangible assets are measured initially at cost and 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	2 — 5 years
Patents	3 years

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) 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.

(g) 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.

(h) Other investments

Other investments are carried at 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.

(i) 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.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(j) 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.

(k) 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.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Bonus plans

Provision for bonus plans due wholly within twelve months after balance sheet are recognized 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 number of defined contribution pension schemes for its employees; the assets of which are generally held in separate trustee-administered funds. 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.

(l) 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.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(l) **Deferred taxation** *(Continued)*

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

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.

(m) **Contingent assets and liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) **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.

NOTES TO ACCOUNTS

1. Principal accounting policies *(Continued)*

(n) Revenue recognition *(Continued)*

(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.

(o) **Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, other investments, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, turnover and segment results are based on where the customer is located and total assets and capital expenditure are based on where the assets are located.

NOTES TO ACCOUNTS

2. Turnover, revenues and segment information

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.

(a) Primary reporting format — business segments

	2004						2003					
	Design, distribution and trading of integrated circuit products and provision of related agency services	Investment property holding	Investment holding	Unallocated amounts	Eliminations	Total	Design, distribution and trading of integrated circuit products and provision of related agency services	Investment property holding	Investment holding	Unallocated amounts	Eliminations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover												
External	160,086	3,875	—	—	—	163,961	117,380	4,320	—	—	—	121,700
Inter-segment	—	—	—	—	—	—	—	—	—	—	—	—
Total turnover	<u>160,086</u>	<u>3,875</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>163,961</u>	<u>117,380</u>	<u>4,320</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>121,700</u>
Cost of sales												
External	(118,012)	—	—	—	—	(118,012)	(81,743)	—	—	—	—	(81,743)
Inter-segment	—	—	—	—	—	—	—	—	—	—	—	—
Gross profit	<u>42,074</u>	<u>3,875</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,949</u>	<u>35,637</u>	<u>4,320</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>39,957</u>
Other revenues												
External	942	2	2	—	—	946	849	13	248	—	—	1,110
Inter-segment	27	—	1,689	—	(1,716)	—	26	—	6,826	—	(6,852)	—
	<u>969</u>	<u>2</u>	<u>1,691</u>	<u>—</u>	<u>(1,716)</u>	<u>946</u>	<u>875</u>	<u>13</u>	<u>7,074</u>	<u>—</u>	<u>(6,852)</u>	<u>1,110</u>

NOTES TO ACCOUNTS

2. Turnover, revenues and segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	2004					Total	2003					Total
	Design, distribution and trading of integrated circuit products and provision of related agency services	Investment property holding	Investment holding	Unallocated amounts	Eliminations		Design, distribution and trading of integrated circuit products and provision of related agency services	Investment property holding	Investment holding	Unallocated amounts	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment expenses												
Distribution costs	(3,513)	-	-	-	-	(3,513)	(3,242)	-	-	-	-	(3,242)
General and administrative expenses	(22,774)	(1,761)	(1,987)	-	960	(25,562)	(29,538)	(1,887)	(6,332)	-	9,496	(28,261)
Other operating (expense)/income	(1,391)	-	(94,333)	(3,850)	-	(99,574)	1,882	85	213,756	-	726	216,449
(Loss)/profit from operations	<u>15,365</u>	<u>2,116</u>	<u>(94,629)</u>	<u>(3,850)</u>	<u>(756)</u>	<u>(81,754)</u>	<u>5,614</u>	<u>2,531</u>	<u>214,498</u>	<u>-</u>	<u>3,370</u>	<u>226,013</u>
Finance costs						(1,234)						(1,627)
(Loss)/profit before taxation						(82,988)						224,386
Taxation						(2,888)						(1,494)
(Loss)/profit before minority interests						(85,876)						222,892
Minority interests						(5,512)						(6,180)
Net (loss)/profit attributable to shareholders						<u>(91,388)</u>						<u>216,712</u>
Total segment assets	<u>128,569</u>	<u>54,904</u>	<u>200,571</u>	<u>1,391</u>	<u>-</u>	<u>385,435</u>	<u>105,941</u>	<u>54,467</u>	<u>303,652</u>	<u>10,253</u>	<u>-</u>	<u>474,313</u>
Total segment liabilities	<u>29,194</u>	<u>1,136</u>	<u>1,026</u>	<u>53,815</u>	<u>-</u>	<u>85,171</u>	<u>35,406</u>	<u>2,298</u>	<u>1,613</u>	<u>54,151</u>	<u>-</u>	<u>93,468</u>
Capital expenditures for segment assets	<u>1,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,571</u>	<u>1,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,649</u>
Depreciation and amortization	<u>7,110</u>	<u>-</u>	<u>10</u>	<u>356</u>	<u>-</u>	<u>7,476</u>	<u>6,535</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>6,546</u>
Impairment loss of goodwill and intangible assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,874</u>	<u>-</u>	<u>3,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Provision for inventory obsolescence	<u>220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220</u>	<u>4,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,209</u>
Provision for bad debts	<u>95</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95</u>	<u>830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>830</u>

NOTES TO ACCOUNTS

2. Turnover, revenues and segment information *(Continued)*

(b) Secondary reporting format – geographical segments

	Turnover		Contribution to net (loss)/profit from operations	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	3,875	4,320	3,875	4,320
Taiwan	152,533	106,616	38,207	29,977
The People's Republic of China	7,553	10,764	3,867	5,660
	163,961	121,700	45,949	39,957
Other revenues (Expenses)/income, net			946 (129,883)	1,110 183,319
(Loss)/profit before taxation			(82,988)	224,386

3. Discontinuing operations

On 2nd December 2004, the Group publicly announced that Wellba Investment Limited (the "Vendor"), a wholly owned subsidiary of the Company, accepted an offer on 15th November 2004 contained in the offer letter dated 2nd November 2004 given by New Empire Properties Limited (the "Purchaser"), an independent third party, and entered into the provisional sale and purchase agreement on 23rd November 2004 with the Purchaser, for the Vendor's disposal of the investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong (the "Property"), to the Purchaser at a total cash consideration of HK\$51,700,000. The entry into of the offer letter by the Vendor and the provisional sale and purchase agreement constitute legally binding agreement between the Vendor and the Purchaser for the sale and purchase of the Property as at 31st December 2004. The completion date for the disposal of the Property was on 10th March 2005.

NOTES TO ACCOUNTS

3. Discontinuing operations *(Continued)*

The operating results of the investment property holding segment are reported in the accounts as a discontinuing operation. The sales, results, cash flows and net assets of the investment property holding segment as at and for the year ended 31st December 2004 are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3,875	4,320
Cost of sales	<u>—</u>	<u>—</u>
Gross profit	3,875	4,320
Other revenues	2	13
General and administrative expenses	<u>(1,761)</u>	<u>(1,802)</u>
Profit from operations	2,116	2,531
Finance costs	<u>(1,122)</u>	<u>(1,379)</u>
Profit before taxation	994	1,152
Taxation	<u>(190)</u>	<u>(299)</u>
Profit for the year	<u>804</u>	<u>853</u>
Net operating cash inflow	4,570	4,471
Net investing cash outflow	(418)	(72)
Net financing cash outflow	<u>(4,200)</u>	<u>(4,200)</u>
Total net cash (outflow)/inflow	<u>(48)</u>	<u>199</u>
Non-current assets	52,000	52,000
Current assets	<u>2,986</u>	<u>2,480</u>
Total assets	54,986	54,480
Total liabilities	<u>(42,951)</u>	<u>(43,249)</u>
Net assets	<u>12,035</u>	<u>11,231</u>

NOTES TO ACCOUNTS

4. Other revenues

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest income		
— bank deposits	452	718
— non-convertible corporate bonds	—	258
Others	494	134
	<hr/> 946 <hr/>	<hr/> 1,110 <hr/>

5. Other operating (expense)/income

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unrealised (loss)/gain arising from mark-to-market valuation of other investments, net	(94,333)	213,571
Amortization charge of goodwill	(893)	(74)
Impairment charge of goodwill	(3,498)	—
Negative goodwill recognised as income	537	800
Recovery of bad debts previously written off	—	392
Loss on disposal of fixed assets, net	(1,700)	—
Realised gain on disposal of other investments	77	185
Gain on disposal of product licensing rights	—	1,437
Others	236	138
	<hr/> (99,574) <hr/>	<hr/> 216,449 <hr/>

NOTES TO ACCOUNTS

6. (Loss)/profit from operations

(Loss)/profit from operations is stated after charging and crediting the following:

	2004 HK\$'000	2003 HK\$'000
Charging:		
Unrealised loss arising from mark-to-market valuation of other investments, net	94,333	—
Depreciation of fixed assets	4,323	4,070
Exchange loss, net	1,481	—
Operating lease rentals in respect of land and buildings	1,711	1,608
Provision for bad debts	95	830
Provision for inventory obsolescence	220	4,209
Amortisation charge of goodwill	893	74
Impairment charge of goodwill	3,498	—
Amortisation charge of intangible assets	2,260	2,402
Impairment charge of intangible assets	377	—
Loss on disposal of fixed assets, net	1,700	—
Research costs	12,177	8,374
Auditors' remuneration	998	991
Staff costs (including Directors' emoluments) (Note 11)	15,784	14,739
Deficit on revaluation of investment property	—	306
	<u>3,875</u>	<u>4,320</u>
Crediting:		
Gross rental income from investment property	3,875	4,320
Less: Outgoings	(631)	(483)
	<u>3,244</u>	<u>3,837</u>
Unrealised gain arising from mark-to-market valuation of other investments	—	213,571
Realised gain on disposal of other investments	77	185
Recovery of bad debts previously written off	748	392
Negative goodwill recognised as income	537	800
Write-back of provision for inventory obsolescence	702	—
Exchange gain, net	—	353
	<u>—</u>	<u>353</u>

NOTES TO ACCOUNTS

7. Finance costs

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest expense on bank loans		
— wholly repayable within five years	583	539
— not wholly repayable after five years	651	1,088
	1,234	1,627

8. Taxation

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. 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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation		
— Hong Kong profits tax	—	54
— Overseas taxation	2,722	1,210
— Overprovision in prior years	(24)	(30)
Deferred taxation (<i>Note 26</i>)		
— relating to taxable temporary differences	190	180
— resulting from an increase in tax rate	—	80
	2,888	1,494

NOTES TO ACCOUNTS

8. Taxation (Continued)

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

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(82,988)	224,386
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(14,523)	39,268
Effect of different taxation rates in other countries	(174)	679
Income not subject to taxation	(11)	(37,193)
Expenses not deductible for taxation purpose	17,199	—
Utilisation of previously unrecognised tax losses	(80)	(2,461)
Timing difference not recognised	501	801
Overprovision in prior years	(24)	(30)
Increase in opening net deferred tax liability resulting from an increase in tax rate	—	80
Others	—	350
Taxation charge	2,888	1,494

9. Net (loss)/profit attributable to shareholders

The consolidated profit attributable to shareholders includes a net loss of approximately HK\$95,736,000 (2003: a net profit of HK\$211,459,000) dealt with in the accounts of the Company.

10. (Loss)/earnings per share

The calculation of basic loss per share for the year ended 31st December 2004 is based on the consolidated net loss attributable to shareholders of approximately HK\$91,388,000 (2003: consolidated net profit of HK\$216,712,000) and 336,587,142 shares (2003: 336,587,142 shares) in issue during the year.

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

NOTES TO ACCOUNTS

11. Staff costs (including Directors' emoluments)

	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	14,995	14,051
Provision for staff and workers' bonus and welfare fund	607	607
Contributions to defined contribution plan	182	81
	<u>15,784</u>	<u>14,739</u>

12. Directors' and senior management's emoluments

(a) Directors' emoluments

	2004	2003
	HK\$'000	HK\$'000
Fees for Executive Directors	—	—
Fees for Non-executive Directors	300	200
Other emoluments	—	—
	<u>300</u>	<u>200</u>

None of the Directors waived any emoluments during the year.

The emoluments of the directors fell within the following bands:

	Number of Directors	
	2004	2003
Nil to \$1,000,000	<u>6</u>	<u>5</u>

NOTES TO ACCOUNTS

12. Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals

None of the five highest paid individuals was a Director of the Company (2003: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals (2003: five) during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries and allowances	1,964	2,901
Bonus	782	63
Contributions to provident fund	38	62
	<u>2,784</u>	<u>3,026</u>

The emoluments fell within the following band:

	Number of Individuals	
	2004	2003
Nil to \$1,000,000	5	4
\$1,000,001 to \$1,500,000	—	1
	<u>5</u>	<u>5</u>

NOTES TO ACCOUNTS

13. Investment property

Group

	2004 HK\$'000	2003 HK\$'000
At 1st January	52,000	56,000
Deficit on revaluation		
— Charged to investment property revaluation reserve	—	(3,694)
— Charged to profit and loss account	—	(306)
	<hr/>	<hr/>
At 31st December	<u>52,000</u>	<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 2004 by Vigers Hong Kong Limited, an independent qualified valuer, at its open market value on an existing use basis.

As at 31st December 2004, the Group's investment property was mortgaged to the bank as security for banking facilities granted (Note 28).

NOTES TO ACCOUNTS

14. Other fixed assets

Group

	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 1st January 2004	1,068	5,792	13,852	20,712
Additions	14	272	455	741
Disposals	—	(1,683)	(3,757)	(5,440)
Effect of foreign exchange rate changes	6	328	571	905
At 31st December 2004	<u>1,088</u>	<u>4,709</u>	<u>11,121</u>	<u>16,918</u>
Accumulated depreciation				
At 1st January 2004	1,068	3,872	5,600	10,540
Charge for the year	—	432	3,891	4,323
Disposals	—	(845)	(2,858)	(3,703)
Effect of foreign exchange rate changes	6	262	269	537
At 31st December 2004	<u>1,074</u>	<u>3,721</u>	<u>6,902</u>	<u>11,697</u>
Net book value				
At 31st December 2004	<u>14</u>	<u>988</u>	<u>4,219</u>	<u>5,221</u>
At 31st December 2003	<u>—</u>	<u>1,920</u>	<u>8,252</u>	<u>10,172</u>

NOTES TO ACCOUNTS

14. 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 2004 and 31st December 2004	1,074	515	1,589
Accumulated depreciation			
At 1st January 2004	1,074	505	1,579
Charge for the year	—	10	10
At 31st December 2004	1,074	515	1,589
Net book value			
At 31st December 2004	—	—	—
At 31st December 2003	—	10	10

NOTES TO ACCOUNTS

15. Intangible assets

Group

	Computer software	Patents	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost			
At 1st January 2004	10,637	—	10,637
Additions	204	626	830
Write-off	(4,758)	—	(4,758)
Effect of foreign exchange rate changes	176	21	197
	<u>6,259</u>	<u>647</u>	<u>6,906</u>
At 31st December 2004	<u>6,259</u>	<u>647</u>	<u>6,906</u>
Accumulated amortisation and impairment losses			
At 1st January 2004	7,994	—	7,994
Amortisation charge for the year	2,243	17	2,260
Impairment charge for the year	377	—	377
Write-off	(4,758)	—	(4,758)
Effect of foreign exchange rate changes	143	1	144
	<u>5,999</u>	<u>18</u>	<u>6,017</u>
At 31st December 2004	<u>5,999</u>	<u>18</u>	<u>6,017</u>
Net book value			
At 31st December 2004	<u>260</u>	<u>629</u>	<u>889</u>
At 31st December 2003	<u>2,643</u>	<u>—</u>	<u>2,643</u>

NOTES TO ACCOUNTS

16. Goodwill/(negative goodwill)

Group

	Goodwill	Negative goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2004	4,391	(537)	3,854
Amortisation charge for the year	(893)	—	(893)
Negative goodwill amortization for the year	—	537	537
Impairment charge for the year	(3,498)	—	(3,498)
	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December 2004	<u>—</u>	<u>—</u>	<u>—</u>

17. Investments in subsidiaries

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	88,010	88,010
Amounts due from subsidiaries (a)	89,567	90,629
Amounts due to subsidiaries (a)	(14,353)	(14,535)
	<u>163,224</u>	<u>164,104</u>
<i>Less: Provision for impairment in value</i>	<u>(15,404)</u>	<u>(15,404)</u>
	<u>147,820</u>	<u>148,700</u>

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 2004.

- (a) Except for the amount due from Wellba Investment Limited of HK\$9,996,374 (2003: HK\$6,285,633) which bore interest at 6% (2003: 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.

NOTES TO ACCOUNTS

17. Investments in subsidiaries (Continued)

(b) Details of the subsidiaries as at 31st December 2004 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 and 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	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

18. Inventories

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	12,752	2,475
Work-in-progress	16,449	10,546
Finished goods	16,427	8,249
	<u>45,628</u>	<u>21,270</u>
Less: Provision for inventory obsolescence	(1,749)	(8,719)
	<u>43,879</u>	<u>12,551</u>

At 31st December 2004, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK\$4,023,000 (2003: HK\$4,834,000).

48

19. Accounts receivable

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable	19,195	15,757
Less: Provision for bad debts	(1)	(1,318)
	<u>19,194</u>	<u>14,439</u>

At 31st December 2004, the aging analysis of accounts receivable were as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 90 days	19,194	15,327
91 — 180 days	1	430
	<u>19,195</u>	<u>15,757</u>

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

NOTES TO ACCOUNTS

20. Other investments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Listed equity securities in				
— United States	199,106	293,502	199,106	293,502
— Hong Kong	97	35	—	—
Listed short-term investment funds in Taiwan	—	8,703	—	—
	<u>199,203</u>	<u>302,240</u>	<u>199,106</u>	<u>293,502</u>
Quoted market value for listed equity securities	<u>199,203</u>	<u>302,240</u>	<u>199,106</u>	<u>293,502</u>

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 2004, the quoted market value of ChipMOS was approximately US\$6.37 (2003: US\$9.39) (equivalent to HK\$49.69 (2003: HK\$73.24)) per share.

NOTES TO ACCOUNTS

21. Accounts payable and accruals

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accounts payable	20,996	16,887	—	—
Accrued charges and other payables	9,743	8,284	878	718
	<u>30,739</u>	<u>25,171</u>	<u>878</u>	<u>718</u>

At 31st December 2004, the aging analysis of accounts payable were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
0 — 90 days	20,996	16,148	—	—
91 — 180 days	—	—	—	—
181 — 365 days	—	—	—	—
Over 365 days	—	739	—	—
	<u>20,996</u>	<u>16,887</u>	<u>—</u>	<u>—</u>

22. Short-term bank loans

At 31st December 2004, the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year (Note 28).

23. Long-term bank loans

	2004 HK\$'000	2003 HK\$'000
Long term bank loans, secured	30,450	34,650
Current portion of long-term bank loans	(4,200)	(4,200)
	<u>26,250</u>	<u>30,450</u>

NOTES TO ACCOUNTS

23. Long-term bank loans *(Continued)*

At 31st December 2004, the Group's bank loans were repayable as follows:

	2004	2003
	HK\$'000	HK\$'000
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	9,450	13,650
	<u>30,450</u>	<u>34,650</u>

The long-term bank loans were secured and interest bearing at prevailing market rates (*Note 28*).

24. Share capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	Nominal value
		<i>HK\$'000</i>
Authorised:		
At 31st December 2003 and 2004	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 31st December 2003 and 2004	<u>336,587,142</u>	<u>33,659</u>

NOTES TO ACCOUNTS

25. Reserves Group

	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004	101,263	—	(2,793)	212,537	311,007
Exchange adjustment on translation of the accounts of overseas subsidiaries	—	—	2,794	—	2,794
Loss for the year	—	—	—	(91,388)	(91,388)
At 31st December 2004	<u>101,263</u>	<u>—</u>	<u>1</u>	<u>121,149</u>	<u>222,413</u>
At 1st January 2003, as previously reported	101,263	3,694	(2,510)	(3,325)	99,122
Effect of adopting SSAP 12	—	—	—	(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	<u>101,263</u>	<u>—</u>	<u>(2,793)</u>	<u>212,537</u>	<u>311,007</u>

NOTES TO ACCOUNTS

25. Reserves (Continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004	101,263	137,800	20,566	149,596	409,225
Loss for the year	—	—	—	(95,736)	(95,736)
At 31st December 2004	<u>101,263</u>	<u>137,800</u>	<u>20,566</u>	<u>53,860</u>	<u>313,489</u>
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	<u>101,263</u>	<u>137,800</u>	<u>20,566</u>	<u>149,596</u>	<u>409,225</u>

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\$191,660,000 (2003: HK\$287,396,000).

26. Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

NOTES TO ACCOUNTS

26. Deferred taxation (Continued)

The movement on the deferred tax liability in respect of temporary difference on the Group's investment property is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	1,110	850
Deferred taxation charged to the profit and loss account (Note 8)		
— relating to taxable temporary difference	190	180
— resulting from an increase in tax rate	—	80
	<hr/>	<hr/>
At 31st December	<u>1,300</u>	<u>1,110</u>

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31st December 2004, the Group has unused tax losses of approximately HK\$27 million (2003: HK\$26 million). The tax losses are subject to approval of the relevant tax authorities in respective jurisdictions. No related deferred tax asset has been recognised (2003: 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\$9 million (2003: HK\$11 million) that will expire as follows:

Expiry	Tax losses
	<i>HK\$'million</i>
2006	3
2007	2
2008	3
2009	<u>1</u>
	<hr/>
	<u>9</u>

NOTES TO ACCOUNTS

27. Consolidated cash flows statement

- (a) Reconciliation of (loss)/profit before taxation to net cash (outflow)/inflow from operating activities:

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(82,988)	224,386
Interest income	(452)	(623)
Interest expense	1,234	1,627
Unrealised loss/(gain) arising from mark-to-market valuation of other investments, net	94,333	(213,571)
Realised gain on disposal of other investments	(77)	(185)
Loss on disposal of fixed assets, net	1,700	—
Depreciation of fixed assets	4,323	4,070
Amortisation charge of goodwill	893	74
Negative goodwill recognised as income	(537)	(800)
Impairment charge of goodwill	3,498	—
Amortisation charge of intangible assets	2,260	2,402
Impairment charge of intangible assets	377	—
Intangible assets written off	—	2,381
Write-back on provision of bad debts, net	(652)	—
Write-back on provision for inventory obsolescence, net	(482)	—
Deficit on revaluation of investment property	—	306
	<hr/>	<hr/>
Operating profit before working capital changes	23,430	20,067
(Increase)/decrease in inventories	(30,846)	5,260
Increase in accounts receivable	(4,103)	(974)
(Increase)/decrease in prepayments, deposits and other receivables	(65)	350
Increase/(decrease) in accounts payable and accruals	5,568	(1,736)
(Decrease)/increase in amounts due to related companies, net	(9,769)	8,778
Decrease in amount due to minority shareholders	—	(895)
	<hr/>	<hr/>
Net cash (outflow)/inflow generated from operations	(15,785)	30,850

NOTES TO ACCOUNTS

27. Consolidated cash flows statement (Continued)

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

	Long-term bank loans	Short-term bank loans	Minority interests	2004 Total	2003 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	34,650	19,500	36,179	90,329	88,829
Additional drawdown of loan	—	—	—	—	4,253
Repayment of loans	(4,200)	—	—	(4,200)	(12,110)
Minority interests' share of net profit	—	—	5,512	5,512	6,180
Minority interests' share of exchange reserve	—	—	2,501	2,501	(124)
Effect of acquisition of minority interests in a subsidiary	—	—	—	—	3,301
End of year	<u>30,450</u>	<u>19,500</u>	<u>44,192</u>	<u>94,142</u>	<u>90,329</u>

28. Banking facilities

The Group's banking facilities related to short-term and long-term bank loans were secured by:

- (a) Pledged deposits to banks in Taiwan of approximately HK\$242,000 (2003: HK\$781,000);
- (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 13*);
- (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 2004, such amount of pledged deposits was approximately HK\$2,150,000 (2003: HK\$1,730,000);
- (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 2004 of HK\$30,450,000 (2003: HK\$34,650,000) in respect of the Group's long-term bank loans; and

NOTES TO ACCOUNTS

28. Banking facilities *(Continued)*

- (f) Corporate guarantees from related companies and letter of comfort from Mosel Vitelic Inc. ("MVI"), an indirect substantial shareholder of the Company *(Note 30(d))*.

29. Commitments under operating lease

As at 31st December 2004, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total future minimum lease payments payable:		
— Not later than 1 year	1,633	1,513
— Later than 1 year and not later than 5 years	153	113
	1,786	1,626

The investment property of the Group was rented out under operating leases. As at 31st December 2004, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total future minimum lease payments receivable:		
— Not later than 1 year	687	2,915
— Later than 1 year and not later than 5 years	—	1,230
	687	4,145

NOTES TO ACCOUNTS

30. 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 (*Note 1*) (“Fong Wing Shing”), PCL Holdings Limited (*Note 1*) (“PCL”) and MVI.

Note:

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.

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Rental income from			
— Fong Wing Shing	(i)	292	324
— PCL	(i)	960	1,182
Manufacturing service fees payable to MVI	(ii)	1,065	13,205
Rental payable to MVI	(iii)	782	759
Management fees payable to MVI	(iii)	304	479
Information system service fees payable to MVI	(iv)	421	409
Product-testing fees payable to MVI		—	146
		—	—

Notes:

- (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.
- (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 information system service fee was charged at a monthly fixed amount of approximately HK\$35,000 (2003: HK\$34,000).

NOTES TO ACCOUNTS

30. Related party transactions *(Continued)*

(b) Amounts due from/to related companies as at 31st December 2004 were as follow:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due from				
MVI	<u>—</u>	<u>193</u>	<u>3</u>	<u>3</u>
Due to				
Fong Wing Shing	<u>46</u>	<u>63</u>	<u>—</u>	<u>—</u>
PCL	<u>98</u>	<u>222</u>	<u>3</u>	<u>—</u>
MVI	<u>1,290</u>	<u>11,111</u>	<u>—</u>	<u>—</u>
	<u>1,434</u>	<u>11,396</u>	<u>3</u>	<u>—</u>

(c) Balances with related companies were all unsecured, interest free and have no fixed term of repayment.

(d) The banking facilities for the Group were guaranteed by related companies *(Note 28(f))*.

31. Subsequent events

Other than as disclosed in Note 3, no significant events have taken place subsequent to 31st December 2004.

32. Approval of accounts

The accounts were approved by the Board of Directors on 25th April 2005.