

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

For the year under review, the net cash inflow of the Group amounted to approximately HK\$19.1 million, of which approximately HK\$16.4 million was cash inflow from operating activities.

As at 31st December 2005, the cash and cash equivalents of the Group amounted to approximately HK\$78.2 million (2004: HK\$59.1 million).

In March 2005, the Group sold its investment property in Hong Kong and discharged the related mortgage liability of approximately HK\$30.5 million. The Group had also repaid all other outstanding bank loans of approximately HK\$19.5 million during the year under review.

GEARING RATIO

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 10.2% (2004: approximately 22.1%). The gearing ratio improved significantly as the Group repaid all its outstanding bank loans during the year under review.

Finance costs for continuing operations incurred for the year under review was approximately HK\$0.2 million as compared to approximately HK\$0.6 million for the last year.

FOREIGN CURRENCY EXPOSURE

For the year review, an exchange adjustment of approximately HK\$0.3 million was credited to reserves upon translation of overseas operations.

As the main operation of the Group is in Taiwan, it is exposed to exchange fluctuations of New Taiwan dollars. However, such exchange risk is expected not to be significant under the current economic environment.

CAPITAL STRUCTURE

There was no change in the capital of the Company for the year under review. The loss attributable to shareholders of approximately HK\$26.7 million was transferred to reserves. As at 31st December 2005, the shareholders' fund was approximately HK\$229.7 million (2004: HK\$256.1 million).

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INVESTMENTS AND CAPITAL ASSETS

As at 31st December 2005, the Group held approximately 3.9 million shares of ChipMOS, of which is listed in NASDAQ. The share price of ChipMOS as at 31st December 2005 was US\$5.80 per share as compared to that of US\$6.37 per share as at 31st December 2004. As a result, an unrealised loss of approximately HK\$17.3 million was recorded in the income statement for the year under review due to mark to market valuation of the investment. ChipMOS is an independent provider of semi-conductor testing and assembly services to customers in Taiwan, Japan and the United States. In accordance with its latest results announcement, for the year ended 31st December 2005, ChipMOS achieved an unaudited net income of approximately US\$28.3 million with a earnings per share of approximately US\$0.42. On 18th April 2006, the quoted market price of ChipMOS was US\$7.15. As disclosed in the latest annual report of ChipMOS, Mosel Vitelic Inc., an indirect substantial shareholder of the Company, owned approximately 38.8% of ChipMOS's equity shares.

In November 2004, the Group's investment property in Hong Kong was sold to a third party at a cash consideration of HK\$51.7 million. The sale was completed on 10th March 2005.

For the year under review, total additions to plant and equipment and intangible assets amounted to approximately HK\$2.5 million (2004: HK\$1.6 million).

CHARGE ON ASSETS

Upon completion of the sale of the investment property in Hong Kong on 10th March 2005, the related mortgage and charge to bank deposits were released.

As at 31st December 2005, restricted bank deposits amounted to approximately HK\$0.2 million, mainly for the purpose of securing payment of value added tax as required by Taiwan Tax Bureau.

SEGMENTAL INFORMATION

Design and distribution of integrated circuit and semi-conductor parts is the main business of the Group which contributed over 99% of its turnover (including discontinued operation) for the year under review. Geographically, approximately 96% of the Group's turnover was contributed by the Taiwan operations for the year under review.

HUMAN RESOURCES

The headcount of the Group as at 31st December 2005 was approximately 84. The Group treasures experienced and knowledgeable staff to meet the competitive business environment. We recruit and retain high calibre staff by paying competitive remuneration packages including basic salaries, bonus, contributions to provident fund and medical benefits. Remuneration packages are reviewed annually with reference to market level and individual staff performance.

CONTINGENT LIABILITIES

No material contingent liabilities of the Group was noted as at 31st December 2005.