Notes to the Financial Statements

1. GENERAL INFORMATION

PacMOS Technologies Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is principally engaged in design and distribution of integrated circuits and semi-conductor parts and investments holding.

The Company is a limited liability company incorporated in Bermuda. The Company is listed on The Stock Exchange of Hong Kong Limited.

The financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company. The address of the registered office and principal place of business of the Company are disclosed on the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 19th April 2006.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss, which are stated at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

In 2005, the Group adopted the new/revised standards and interpretations of HKFRSs which are effective for the accounting periods commencing on or after 1st January 2005. The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2(b) below.

The HKICPA has issued a number of new standards, amendments and interpretations to existing standards which are not yet effective for the current accounting period. The Group has not early adopted these new standards, amendments and interpretations in 2005. The Group do not expect that these standards, amendments and interpretations will have significant impact on its current year's results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies

The adoption of the following HKFRSs, which include all Hong Kong Accounting Standards ("HKASs") and applicable Interpretations ("HKAS Ints"), that necessitates material changes in accounting policies or presentation of the financial statements are summarised as follows:

(i) Presentation of financial statements

The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interest and other disclosures.

(ii) Investment property

The adoption of HKAS 40 "Investment Property" has resulted in a change in the accounting policy whereby changes in fair values of investment properties are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKAS 40 has no impact to the financial statements because the Group's investment property was in a net revaluation deficit position as at 31st December 2004 and the investment property was disposed of during the year ended 31st December 2005.

(iii) Deferred taxation

The adoption of revised HKAS Int 21 "Income Taxes: Recovery of Revalued Non-Depreciable Assets" has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

(iv) Financial assets at fair value through profit or loss

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the recognition, measurement, derecognition and disclosure of financial assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(iv) Financial assets at fair value through profit or loss *(Continued)*

In accordance with provisions of HKAS 39, the Group reclassified their investments into financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried at fair value with any unrealised gains and losses taken to income statement. In prior years, investments of the Group were included in investment securities which were also stated at fair value.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis. Accordingly, the Group redesignates all investments as financial assets at fair value through profit or loss as at 1st January 2005.

(v) Goodwill

The adoption of HKAS 38 “Intangible Assets” has resulted in a change in the accounting policy whereby goodwill shall not be subject to amortisation and shall be tested for impairment at least annually, irrespective of whether any indications of impairment exist. In prior years, goodwill was amortised on a straight-line basis over a period of 5 years. Assessment for impairment was only performed when there were indications that goodwill was impaired.

The Group’s goodwill had been fully amortised and impaired as at 31st December 2004. The Group ceased amortisation of goodwill from 1st January 2005 and accumulated amortisation and impairment losses as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

(vi) Discontinued operation

Pursuant to HKFRS 5, the Group’s disposal of investment property in March 2005 held by Wellba Investment Limited, a wholly-owned subsidiary, were classified as discontinued operation. Details of the discontinued operation are disclosed in Note 6 below.

The adoption of HKFRS 5 has resulted in the change in presentation of financial statements. In 2005, a single amount on the face of the income statement comprising the aggregate of the post-tax loss recognised of discontinued operation was disclosed. In prior years, results of discontinued operations were incorporated in the individual lines on the face on the income statement. An analysis of the single amount into the revenue, expense, pre-tax loss of discontinued operation was disclosed in the notes to the financial statements.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(vii) Effect of changes in accounting policies

There had been no change to the Group's and the Company's reserves as at 1st January 2005, the loss for the year ended 31st December 2004 and 2005 except for the reclassification required by HKAS 32 and 39 as mentioned in Note 2(b)(iv) above. Reclassification is made as follows:

Group

	Other investments *HK$'000*	**Financial assets at fair value through profit or loss** *HK$'000*
At 1st January 2005, as previously reported	**199,203**	—
Effect of adopting HKAS 32 & 39	**(199,203)**	199,203
At 1st January 2005, as restated	**—**	199,203

Company

	Other investments *HK$'000*	**Financial assets at fair value through profit or loss** *HK$'000*
At 1st January 2005, as previously reported	**199,106**	—
Effect of adopting HKAS 32 & 39	**(199,106)**	199,106
At 1st January 2005, as restated	—	199,106

(c) Consolidation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Consolidation *(Continued)*

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of their board of directors, controls more than half of their voting power or holds more than half of their issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of a subsidiary company by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet 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.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates; and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Plant and equipment

Plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment and plant and machinery, are stated at cost less accumulated depreciation and impairment losses.

Depreciation of plant and equipment is calculated using straight-line method to allocate cost to their residual values over their estimated useful lives as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group companies, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation/amortisation are at least tested annually for impairment or are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investments

Prior to 1st January 2005, the Group classified its investments in securities other than subsidiaries as other investments. From 1st January 2005 onwards, the Group classifies its investments as financial assets at fair value through profit or loss.

(i) 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 income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(ii) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in non-current assets when the maturities are greater than 12 months after the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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 identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition and is recognised as income when incurred.

(ii) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3 years.

(iii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

(j) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash investments with maturity within three months from the date of investment and bank overdrafts.

(m) Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(n) 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 financial statements. Deferred taxation is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Contingent liabilities and contingent assets

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Revenue and income recognition

The Group recognises income on the following bases:

(i) Sales of goods

Sales of goods are recognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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 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 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 aforesaid defined contribution retirement schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale as stipulated under the requirements of the respective territories and are charged to the income statement as incurred.

The employees of the Company's subsidiaries in the People's Republic of China (the "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.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Borrowings *(Continued)*

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk.

(a) Foreign exchange risk

The Group operates in Hong Kong, Taiwan and PRC and is primarily exposed to foreign exchange risk arising from New Taiwan dollar, United States dollar ("US dollar") and Renminbi.

(b) Credit risk

The Group has no significant concentrations of credit risk with any counterparty.

(c) Liquidity risk

The Group adopts a prudent liquidity risk management and maintains sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities.

(d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets and liabilities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Investment property

The fair values of investment property are determined by independent valuers on an open market basis.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(b) Impairment of investments

The guidance of HKAS 39 is followed by the Group in determining when an investment has other-than-temporary impairment. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(c) Useful lives and residual values of plant and equipment

Management determines the estimated useful lives and residual values for the Group's plant and equipment. The Group will revise the depreciation charge where useful lives and residual values are different to previous estimates, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of integrated circuits and semi-conductor parts	**147,961**	160,086
Other revenues		
Bank interest income	**724**	452
Others	**71**	494
	795	946
Total revenues	**148,756**	161,032

(b) Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format. The continuing operations of the Group is organised into two main business segments, namely (i) design and distribution of integrated circuits and semi-conductor parts, (ii) investments holding, and are located in Hong Kong, Taiwan and the PRC.

There are no sales between the geographical segments.

Notes to the Financial Statements

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Primary reporting format — business segments

	2005			
	Continuing operations		Discontinued operation	
	Design and distribution of integrated circuits and semi-conductor parts *HK$'000*	Investments holding *HK$'000*	Property rental *HK$'000*	Total *HK$'000*
Segment revenues	147,961	—	726	148,687
Segment results	27,046	(17,304)	(742)	9,000
Unallocated income				795
Unallocated costs				(31,742)
Finance costs				(325)
Loss before taxation				(22,272)
Taxation				(1,367)
Loss for the year				(23,639)
Segment assets	118,076	175,890	—	293,966
Unallocated assets				7,941
Total assets				301,907
Segment liabilities	26,210	—	27	26,237
Unallocated liabilities				4,474
Total liabilities				30,711
Other segment items include:				
Capital expenditure				
— segment	1,116	—	—	1,116
— unallocated				1,363
Depreciation and amortisation				
— segment	3,022	—	—	3,022
— unallocated				170
Provision for impairment of trade receivables				
— segment	251	—	—	251
Provision for impairment of inventories				
— segment	361	—	—	361

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

***Primary reporting format — business segments** (Continued)*

	2004			
	Continuing operations		Discontinued operation	
	Design and distribution of integrated circuits and semi-conductor parts	Investments holding	Property rental	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues	160,086	—	3,875	163,961
Segment results	37,093	(94,256)	3,372	(53,791)
Unallocated income				946
Unallocated costs				(28,909)
Finance costs				(1,234)
Loss before taxation				(82,988)
Taxation				(2,888)
Loss for the year				(85,876)
Segment assets	128,569	199,203	54,697	382,469
Unallocated assets				2,966
Total assets				385,435
Segment liabilities	29,942	—	31,396	61,338
Unallocated liabilities				23,833
Total liabilities				85,171
Other segment items include:				
Capital expenditure				
— segment	1,571	—	—	1,571
Depreciation and amortisation				
— segment	7,110	—	—	7,110
— unallocated				366
Reversal of trade receivables impairment				
— segment	653	—	—	653
Reversal of inventory impairment				
— segment	482	—	—	482
Provision for impairment of intangible assets and goodwill				
— segment	377	—	—	377
— unallocated				3,498

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Secondary reporting format — geographical segments

	2005			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**726**	**(18,046)**	**183,830**	**1,363**
Taiwan	**142,987**	**25,502**	**113,143**	**1,087**
PRC	**4,974**	**1,544**	**4,934**	**29**
	148,687	**9,000**	**301,907**	**2,479**

	2004			
	Turnover	Segment results	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	3,875	(90,961)	256,866	—
Taiwan	152,533	34,389	120,392	1,314
PRC	7,553	2,781	8,177	257
	163,961	(53,791)	385,435	1,571

6. DISCONTINUED OPERATION

Wellba Investment Limited, a wholly owned subsidiary of the Company, had disposed of the investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong (the "Property"), to a third party at a total cash consideration of HK$51,700,000. The completion date for the disposal of the Property was on 10th March 2005.

6. DISCONTINUED OPERATION *(Continued)*

The turnover, results, cash flows and net (liabilities)/assets reflected in the consolidated financial statements are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover — rental income	**726**	3,875
Other operating expense — Indirect outgoings	**(1,468)**	(503)
(Loss)/profit from operations	**(742)**	3,372
Finance costs	**(132)**	(651)
(Loss)/profit before taxation	**(874)**	2,721
Taxation	**—**	(190)
(Loss)/profit for the year	**(874)**	2,531
Net operating cash inflow	**976**	4,570
Net investing cash inflow/(outflow)	**53,850**	(418)
Net financing cash outflow	**(30,450)**	(4,200)
Total net cash inflow/(outflow)	**24,376**	(48)
Non-current assets	**—**	52,000
Current assets	**—**	2,765
Total assets	**—**	54,765
Total liabilities	**(1,327)**	(32,624)
Net (liabilities)/assets	**(1,327)**	22,141

7. LOSS FROM OPERATIONS

Loss from operations is stated after charging and crediting the following:

	2005	2004
	HK$'000	*HK$'000*
Charging:		
Amortisation of goodwill	**—**	893
Amortisation of intangible assets	**365**	2,260
Auditors' remuneration		
— audit and audit related services	**1,235**	974
— non-audit services	**24**	24
Depreciation of plant and equipment	**2,827**	4,323
Exchange loss, net	**—**	1,481
Fair value losses on financial assets at fair value through profit or loss/other investments	**17,351**	94,333
Loss on disposal of investment property	**300**	—
Loss on disposal of plant and equipment, net	**—**	1,700
Operating lease rentals in respect of land and buildings	**3,035**	1,711
Provision for impairment of inventories	**361**	—
Provision for impairment of trade receivables	**251**	—
Provision for impairment of intangible assets	**—**	377
Provision for impairment of goodwill	**—**	3,498
Research costs	**14,759**	12,177
Staff costs (including Directors' emoluments) *(Note 8)*	**20,813**	15,784
Crediting:		
Exchange gain, net	**382**	—
Negative goodwill recognised as income	**—**	537
Realised gain on disposal of financial assets at fair value through profit or loss/other investments	**47**	77
Reversal of inventory impairment	**—**	482
Reversal of trade receivables impairment	**—**	653

Notes to the Financial Statements

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**18,531**	14,995
Provision for staff and workers' bonus and welfare fund	**1,874**	607
Contributions to defined contribution plan	**408**	182
	20,813	15,784

(a) Directors' emoluments

The remuneration of every director for the year ended 31st December 2005 and 2004 is set out below:

	2005	2004
	HK$'000	*HK$'000*
Fees for Executive Directors	**—**	—
Fees for Non-executive Directors		
— Mr. Cheng Hok Ming, Albert	**100**	100
— Mr. Fung Choi On	**—**	100
— Mr. Ma Kwai Yuen	**100**	—
— Mr. Wong Chi Keung	**100**	100
Other emoluments	**—**	—
	300	300

None of the Directors waived any emoluments during the year.

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

None of the five highest paid individuals was a Director of the Company (2004: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals (2004: five) during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries and allowances	**2,469**	1,964
Bonus	**1,181**	782
Contributions to provident fund	**60**	38
	3,710	2,784

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Nil to HK$1,000,000	**4**	5
HK$1,000,001 to HK$1,500,000	**1**	—
	5	5

During the year, no emolument was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(c) Key management remuneration

Remuneration for key management, included in the highest paid employee as disclosed in Note 8(b) above, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries, housing and other allowances, benefits in kind	**824**	658
Bonuses	**403**	260
Retirement benefit costs	**14**	13
	1,241	931

9. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest expense on bank loan		
— wholly repayable within five years	**193**	583

10. TAXATION

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 income statement represents:

	2005	2004
	HK$'000	*HK$'000*
Current taxation		
— Overseas taxation	**1,367**	2,722
— Overprovision in prior years	**—**	(24)
	1,367	2,698

Notes to the Financial Statements

10. TAXATION *(Continued)*

The tax on the Group's loss before taxation from continuing operations differs from the theoretical amount that would arise using the taxation rate of Hong Kong where the Company operates and the difference is set out as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation for continuing operations	**(21,398)**	(85,709)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**(3,745)**	(14,999)
Effect of different taxation rates in other countries	**(34)**	(174)
Income not subject to taxation	**(27)**	(11)
Expenses not deductible for taxation purpose	**3,136**	17,195
Timing differences and tax losses not recognised	**2,037**	791
Utilisation of previously unrecognised tax losses	**—**	(80)
Overprovision in prior years	**—**	(24)
Tax charge	**1,367**	2,698

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a net loss of approximately HK$123,933,000 (2004: HK$95,736,000) dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31st December 2005 is based on the consolidated net loss attributable to the equity holders of the Company of approximately HK$26,655,000 (2004: HK$91,388,000) and 336,587,142 shares (2004: 336,587,142 shares) in issue during the year. Details of basic (loss)/earnings per share are analysed as follows:

	2005	2004
	HK cents	*HK cents*
Basic (loss)/earnings per share		
Continuing operations	**(7.66)**	(27.90)
Discontinued operation	**(0.26)**	0.75
	(7.92)	(27.15)

As there are no dilutive potential ordinary shares as at 31st December 2005 and 2004, the dilutive (loss)/earnings per share is equal to the basic (loss)/earnings per share.

Notes to the Financial Statements

13. PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
Cost				
At 1st January 2005	1,088	4,709	11,121	16,918
Additions	493	1,176	25	1,694
Disposals	—	(36)	—	(36)
Exchange differences	—	59	(138)	(79)
At 31st December 2005	1,581	5,908	11,008	18,497
Accumulated depreciation				
At 1st January 2005	1,074	3,721	6,902	11,697
Charge for the year	86	476	2,265	2,827
Disposals	—	(36)	—	(36)
Exchange differences	—	51	(113)	(62)
At 31st December 2005	1,160	4,212	9,054	14,426
Net book value				
At 31st December 2005	421	1,696	1,954	4,071
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)
Exchange differences	6	328	571	905
At 31st December 2004	1,088	4,709	11,121	16,918
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)
Exchange differences	6	262	269	537
At 31st December 2004	1,074	3,721	6,902	11,697
Net book value				
At 31st December 2004	14	988	4,219	5,221

Notes to the Financial Statements

13. PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost			
At 1st January 2005	1,074	515	1,589
Additions	493	870	1,363
At 31st December 2005	1,567	1,385	2,952
Accumulated depreciation			
At 1st January 2005	1,074	515	1,589
Charge for the year	72	98	170
At 31st December 2005	1,146	613	1,759
Net book value			
At 31st December 2005	421	772	1,193
Cost			
At 1st January 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	—	—	—

14. INVESTMENT PROPERTY

Group

	2005	2004
	HK$'000	*HK$'000*
At 1st January	**52,000**	52,000
Disposal	**(52,000)**	—
At 31st December	**—**	52,000

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.

During the year, the above property was disposed to a third party at a consideration of HK$51,700,000 *(Note 6)*.

15. INTANGIBLE ASSETS

Group

	Computer software *HK$'000*	Patents *HK$'000*	Total *HK$'000*
Cost			
At 1st January 2005	6,259	647	6,906
Additions	520	265	785
Exchange difference	45	(11)	34
At 31st December 2005	6,824	901	7,725
Accumulated amortisation			
At 1st January 2005	5,999	18	6,017
Charge for the year	98	267	365
Exchange difference	52	(3)	49
At 31st December 2005	6,149	282	6,431
Net book value			
At 31st December 2005	675	619	1,294
Cost			
At 1st January 2004	10,637	—	10,637
Additions	204	626	830
Write-off	(4,758)	—	(4,758)
Exchange difference	176	21	197
At 31st December 2004	6,259	647	6,906
Accumulated amortisation and impairment losses			
At 1st January 2004	7,994	—	7,994
Charge for the year	2,243	17	2,260
Impairment losses	377	—	377
Write-off	(4,758)	—	(4,758)
Exchange difference	143	1	144
At 31st December 2004	5,999	18	6,017
Net book value			
At 31st December 2004	260	629	889

16. GOODWILL/(NEGATIVE GOODWILL)

Group

	Goodwill	Negative goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January 2005 and 31st December 2005	—	—	—
At 1st January 2004	4,391	(537)	3,854
Amortisation charge	(893)	—	(893)
Negative goodwill recognised as income	—	537	537
Impairment losses	(3,498)	—	(3,498)
At 31st December 2004	—	—	—

17. SUBSIDIARIES

(a) Investments in subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**88,010**	88,010
Less: Provision for impairment in value	**(78,000)**	—
	10,010	88,010

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 2005.

Notes to the Financial Statements

17. SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Details of the subsidiaries as at 31st December 2005 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%	—	Investments 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%	—	Investments holding
Harvest Century Enterprises Limited	Hong Kong	HK$10,000 ordinary	100%	—	Inactive
SyncMOS Technologies, Inc. (BVI)	British Virgin Islands	US$1 ordinary	100%	—	Investments holding
Shanghai SyncMOS Semiconductor Company Limited	Shanghai, 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

17. SUBSIDIARIES *(Continued)*

(b) Amounts due from/(to) subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**83,307**	89,567
Less: Provision for impairment in value	**(40,404)**	(15,404)
	42,903	74,163
Amounts due to subsidiaries	**(10,867)**	(14,353)
	32,036	59,810

Except for the amount due from Wellba Investment Limited of HK$9,996,374 in 2004 which bore interest at 6% per annum, all other outstanding balances with subsidiaries were unsecured, non-interest bearing and have no fixed terms of repayment.

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**2,901**	12,752
Work-in-progress	**4,480**	16,449
Finished goods	**13,154**	16,427
	20,535	45,628
Less: Provision for impairment of inventories	**(2,110)**	(1,749)
	18,425	43,879

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**15,926**	19,194	**—**	—
Prepayments, deposits and other receivables	**6,754**	2,834	**992**	570
	22,680	22,028	**992**	570

At 31st December 2005, the aging analysis of trade receivables of the Group were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0-90 days	**16,091**	19,194
91-180 days	**87**	1
	16,178	19,195
Less: Provision for impairment of trade receivables	**(252)**	(1)
	15,926	19,194

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

The carrying amount of trade and other receivables is approximately their fair values as at 31st December 2005.

Include in trade and other receivables is the following amount denominated in a currency other than the functional currency of the Group:

	Group	
	2005	2004
	HK$'000	*HK$'000*
New Taiwan dollars	**6,609**	7,290
US dollars	**14,772**	13,183
Renminbi	**249**	377

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	Company
	2005	**2005**
	HK$'000	***HK$'000***
Listed equity securities in		
— United States	**175,861**	**175,861**
— Hong Kong	**29**	**—**
Market value of listed securities	**175,890**	**175,861**

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other operating expense in the income statement.

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	Principal activities	Percentage of shares held	Class of shares held
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	Provision of semi-conductor testing and assembly services	5%	Ordinary

At 31st December 2005, the quoted market value of ChipMOS was approximately US$5.80 (2004: US$6.37) (equivalent to HK$45.24 (2004: HK$49.69)) per share.

21. OTHER INVESTMENTS

	Group	Company
	2004	2004
	HK$'000	*HK$'000*
Listed equity securities in		
— United States	199,106	199,106
— Hong Kong	97	—
	199,203	199,106
Quoted market value for listed equity securities	199,203	199,106

Notes to the Financial Statements

22. RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Restricted bank deposits *(Note a)*	**239**	2,392	**—**	—
Cash and bank balances *(Notes b and c)*	**78,232**	59,097	**4,288**	530
	78,471	61,489	**4,288**	530

(a) At 31st December 2005, restricted bank deposits of the Group are pledged to secure payment of value added tax as required by Taiwan Tax Bureau. The amount was denominated in New Taiwan dollar with an effective interest rate of 1.70% per annum (2004: 1.50% per annum).

Amount in 2004 included restricted bank deposits pledged to a financial institution in Hong Kong to secure the mortgage loan of the Group's investment property. The amount was denominated in Hong Kong dollar with an effective interest rate of 0.11% per annum.

(b) Included fixed deposits of approximately HK$48,804,000 (2004: HK$19,481,000) of the Group with maturity periods ranging from 1 to 3 months and with effective interest rates from 1.39% to 4.253% per annum (2004: 1.08% to 1.18% per annum).

(c) Include the cash and bank balances and cash are the following amounts denominated in a currency other than the functional currency of the Group:

	Group	
	2005	2004
	HK$'000	*HK$'000*
New Taiwan dollars	**52,564**	7,856
US dollars	**19,610**	980
Renminbi	**1,065**	49,275

23. TRADE PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**15,723**	20,996	**—**	—
Accrued charges and other payables	**10,773**	9,743	**1,527**	878
	26,496	30,739	**1,527**	878

23. TRADE PAYABLES AND ACCRUALS *(Continued)*

At 31st December 2005, the aging analysis of trade payables of the Group were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0-90 days	**15,692**	20,996
91-180 days	**31**	—
	15,723	20,996

The carrying amount of trade payables and accruals are approximately their fair values as at 31st December 2005.

Include in trade payables and accruals are the following amounts denominated in a currency other than the functional currency of the Group:

	Group	
	2005	2004
	HK$'000	*HK$'000*
New Taiwan dollars	**19,250**	23,635
US dollars	**620**	1,175
Renminbi	**4,876**	3,671

24. SHORT-TERM BANK LOANS, SECURED

At 31st December 2004, the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year. The effective interest rate was 3.90% per annum.

The carrying amounts of the short-term bank loans were denominated in US dollars as at 31st December 2004.

25. LONG-TERM BANK LOANS, SECURED

	Group	
	2005	2004
	HK$'000	*HK$'000*
Long term bank loans, secured	**—**	30,450
Current portion of long-term bank loans	**—**	(4,200)
	—	26,250

Notes to the Financial Statements

25. LONG-TERM BANK LOANS, SECURED *(Continued)*

At 31st December 2004, the long-term bank loans were secured by investment property of the Group and interest bearing at prevailing market rates. The effective interest rate was 1.94% per annum.

The carrying amounts of the long term bank loans were denominated in Hong Kong dollars as at 31st December 2004. All the long-term bank loans were repaid during the year.

26. DEFERRED TAX LIABILITIES

Deferred tax liabilities is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax liabilities is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Accelerated tax depreciation		
At 1st January	**1,300**	1,110
Charged to the income statement		
— Discontinued operation *(Note 6)*	**—**	190
At 31st December	**1,300**	1,300

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 2005, the Group has unused tax losses of approximately HK$33 million (2004: HK$27 million). The tax losses are subject to approval of the relevant tax authorities in respective jurisdictions. No related deferred tax asset has been recognised (2004: 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.

Notes to the Financial Statements

26. DEFERRED TAX LIABILITIES *(Continued)*

Included in the unrecognised tax losses are losses of approximately HK$15 million (2004: HK$9 million) that will expire as follows:

Expiry	**Tax losses** *HK$'million*
2006	3
2007	2
2008	3
2009	2
2010	5
	15

27. SHARE CAPITAL

	2005 ***HK$'000***	2004 *HK$'000*
Authorised:		
500,000,000 ordinary shares of HK$0.1 each	**50,000**	50,000
Issued and fully paid:		
336,587,142 ordinary shares of HK$0.1 each	**33,659**	33,659

28. RESERVES

Group

	Share premium HK$'000	Exchange reserve HK$'000	Other statutory reserve HK$'000 (note)	Retained earnings HK$'000	Total HK$'000
At 1st January 2005	101,263	1	—	121,149	222,413
Transfer to Taiwan statutory reserve	—	—	1,535	(1,535)	—
Currency translation differences	—	318	—	—	318
Loss for the year	—	—	—	(26,655)	(26,655)
At 31st December 2005	101,263	319	1,535	92,959	196,076
At 1st January 2004	101,263	(2,793)	—	212,537	311,007
Currency translation differences	—	2,794	—	—	2,794
Loss for the year	—	—	—	(91,388)	(91,388)
At 31st December 2004	101,263	1	—	121,149	222,413

Note:

Pursuant to relevant Taiwan statutory regulation, a company incorporated in Taiwan is required to set aside 10% of its net profit for the year reported in the local statutory accounts as general reserve fund. This general reserve fund is non-distributable and can only be used, upon approved by the relevant authority, to make good of previous years' losses or to increase the capital of the subsidiary.

Company

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1st January 2005	101,263	137,800	20,566	53,860	313,489
Loss for the year	—	—	—	(123,933)	(123,933)
At 31st December 2005	101,263	137,800	20,566	(70,073)	189,556
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	101,263	137,800	20,566	53,860	313,489

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.

29. NOTES TO CONSOLIDATED CASH FLOWS STATEMENT

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

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(22,272)**	(82,988)
Interest income	**(724)**	(452)
Interest expense	**325**	1,234
Amortisation of intangible assets and goodwill	**365**	3,153
Depreciation of plant and equipment	**2,827**	4,323
Fair value loss from financial assets at fair value through profit or loss/other investments	**17,351**	94,333
Loss on disposal of investment property	**300**	—
Loss on disposal of plant and equipment	**—**	1,700
Negative goodwill recognised as income	**—**	(537)
Provision for/(reversal of) inventory impairment	**361**	(482)
Provision for/(reversal of) trade receivables impairment	**251**	(653)
Provision for impairment of intangible assets and goodwill	**—**	3,875
Realised gain on disposal of financial assets at fair value through profit or loss/other investments	**(47)**	(77)
Operating (loss)/profit before working capital changes	**(1,263)**	23,429
Decrease/(increase) in inventories	**25,093**	(30,846)
Increase in trade and other receivables	**(903)**	(4,167)
(Decrease)/increase in trade payables and accruals	**(4,243)**	5,568
Movements in balances with related companies	**(331)**	(9,769)
Net cash inflow/(outflow) generated from operations	**18,353**	(15,785)

Notes to the Financial Statements

29. NOTES TO CONSOLIDATED CASH FLOWS STATEMENT *(Continued)*

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

	Short-term bank loans *HK$'000*	Long-term bank loans *HK$'000*	Minority interest *HK$'000*	**2005 Total** ***HK$'000***	2004 Total *HK$'000*
Beginning of year	19,500	30,450	44,192	**94,142**	90,329
Repayment of loans	(19,500)	(30,450)	—	**(49,950)**	(4,200)
Dividend paid to minority shareholders	—	—	(5,227)	**(5,227)**	—
Minority interest's share of net profit	—	—	3,016	**3,016**	5,512
Minority interest's share of exchange reserve	—	—	(520)	**(520)**	2,501
End of year	—	—	41,461	**41,461**	94,142

30. COMMITMENTS UNDER OPERATING LEASE

As at 31st December 2005, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Total future minimum lease payments payable:		
— Not later than 1 year	**3,187**	1,633
— Later than 1 year and not later than 5 years	**3,393**	153
	6,580	1,786

As at 31st December 2005, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Total future minimum lease payments receivable:		
— Not later than 1 year	**—**	687

31. 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 undertook the following transactions with related parties in the normal course of its business:

		2005	2004
		HK$'000	*HK$'000*
Income received/receivable:			
Rental income receivable from			
— Fong Wing Shing Construction Company Limited ("Fong Wing Shing")	*(i)*	**194**	292
— PCL Holdings Limited	*(i)*	**97**	960
		291	1,252
Expense paid/payable to Mosel Vitelic Inc. ("MVI"):			
Rental expense payable	*(ii)*	**809**	782
Management fees expense payable	*(ii)*	**315**	304
Information system service fees payable	*(iii)*	**436**	421
Manufacturing service fees payable	*(iv)*	**893**	1,065
		2,453	2,572

Notes:

(i) The rental was charged to related companies based on the floor area occupied.

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

(iii) The information system service fee was charged at a monthly fixed amount of approximately HK$36,000 (2004: HK$35,000).

(iv) The manufacturing service fees payable to MVI was charged in the ordinary and usual course of business of the Company.

Notes to the Financial Statements

31. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Amounts due from/(to) related companies as at 31st December 2005 were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due from				
Fong Wing Shing	**359**	—	**359**	—
MVI	**—**	—	**3**	3
	359	—	**362**	3
Due to				
Fong Wing Shing	**—**	(46)	**—**	—
PCL Holdings Limited	**—**	(98)	**—**	(3)
MVI	**(1,462)**	(1,290)	**—**	—
	(1,462)	(1,434)	**—**	(3)

Balances with related companies were all unsecured, interest free and repayable on demand.