

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the cash and cash equivalents of the Group amounted to approximately HK\$102.6 million (2005: approximately HK\$78.2 million).

For the year under review, the group recorded a net cash inflow of approximately HK\$24.4 million, which included inflows of approximately HK\$8.4 million from operating activities and approximately HK\$16.5 million from investing activities.

GEARING RATIO

As at 31 December 2006, the gearing ratio of the Group, defined as total liabilities expressed as a percentage of total assets, was approximately 9.6% (2005: approximately 10.2%). The Group did not employ any bank financing during the year, and no interest cost was incurred. As at 31 December 2006, the total liabilities (mainly trade payables) of the Group were approximately HK\$31.8 million (2005: approximately HK\$30.7 million).

FOREIGN CURRENCY EXPOSURE

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

For the year under review, a net exchange loss of approximately HK\$0.6 million (2005: exchange gain of approximately HK\$0.4 million) was recognised in the consolidated income statement. Exchange differences on translation of overseas subsidiaries of approximately HK\$1.3 million were credited to exchange reserve.

CAPITAL STRUCTURE

The profit attributable to shareholders for the year under review of approximately HK\$25.4 million was transferred to retained earnings. There was no change in the capital of the Company for the year under review. As at 31 December 2006, the shareholders' fund amounted to approximately HK\$256.7 million (2005: approximately HK\$229.7 million).

INVESTMENTS AND CAPITAL ASSETS

The Company held approximately 3.6 million shares of ChipMOS which is listed on NASDAQ. According to its latest announcement, for the year ended 31 December 2006, ChipMOS achieved an unaudited net income of approximately US\$38.4 million with earnings per share of approximately US\$0.56 per share.

During the year under review, the Group acquired property, plant and equipment and intangible assets of approximately HK\$1.3 million (2005: approximately HK\$2.5 million).

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CHARGES ON ASSETS

As at 31 December 2006, restricted bank deposits amounted to approximately HK\$0.2 million (2005: approximately HK\$0.2 million) which were mainly for the purpose of securing payment of value added tax.

SEGMENT INFORMATION

For the year under review, approximately 97% of turnover of the Group was generated in Taiwan. The Taiwan operations recorded an operating profit of approximately HK\$8.7 million (2005: approximately HK\$8.0 million), while the operations in Shanghai recorded an operating loss of approximately HK\$1.3 million (2005: operating profit of approximately HK\$1.5 million).

HUMAN RESOURCES

During the year, an employee share option scheme was established by the Company's subsidiary in Taiwan, 新茂國際科技股份有限公司, to retain high-calibre employees. The management believes that it is in line with modern commercial practice that eligible employees should be given incentives in the form of options to work towards enhancing the value of the subsidiary and the Group as a whole.

Remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits. The headcount of the Group as at 31 December 2006 was approximately 82.

CONTINGENT LIABILITIES

No material contingent liabilities of the Group were noted as at 31 December 2006.