Notes to the Consolidated 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 address of the principal place of business of the Company is 27th Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units HK dollars (HK$'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 11 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 of PacMOS Technologies Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS 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 consolidated financial statements, are disclosed in Note 4.

Notes to the Consolidated Financial Statements

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

(a) Basis of preparation *(Continued)*

(i) Amendment and interpretation to existing standards effective in 2006 and are relevant to the Group's operations

The following amendment and interpretation to existing standards and interpretations are mandatory for financial year ended 31 December 2006 and are relevant to its operations.

• HKAS 39 (Amendment)	The Fair Value Option
• HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The amendment and interpretation to existing standards and interpretations above do not have material impacts to the Group.

(ii) Standards, amendments and interpretations to existing standards effective in 2006 but not relevant to the Group's operations

The following standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

• HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
• HKAS 21 (Amendment)	New Investment in a Foreign Operation
• HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
• HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
• HKFRS 6	Exploration for and Evaluation of Mineral Resources
• HKFRSs 1 and 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
• HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
• HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Notes to the Consolidated Financial Statements

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

(a) Basis of preparation *(Continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments or interpretations to existing standards have been published but are not yet effective for 2006 and have not been early adopted:

- HKAS 1 (Amendment) — Capital Disclosures
- HKFRS 7 — Financial instruments: Disclosures
- HKFRS 8 — Operating Segments
- HK(IFRIC)-Int 7 — Applying the Restatement Approach
- HK(IFRIC)-Int 8 — Scope of HKFRS 2
- HK(IFRIC)-Int 9 — Reassessment of Embedded Derivatives
- HK(IFRIC)-Int 10 — Interim Financial Reporting and Impairment
- HK(IFRIC)-Int 11 — HKFRS 2 — Group and Treasury Share Transactions
- HK(IFRIC)-Int 12 — Service Concession Arrangement

The Group has already commenced an assessment of the impact of new standards, amendments or interpretations to existing standards but is not yet in a position to state whether these new standards, amendments or interpretations to existing standards would have a significant impact of its results of operations and financial position.

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group control another entity.

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.

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

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries 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 the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Segment reporting

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.

(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 Consolidated 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 (none of which has the currency of a hyperinflationary economy) 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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); 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 operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as parts of the gain or loss on disposal.

(e) Properties, plant and equipment

Properties, plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment and plant and machinery, is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

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

(e) Properties, plant and equipment *(Continued)*

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

Leasehold improvements	4 years
Furniture, fixtures and equipment	4 — 8 years
Plant and machinery	3 — 5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

(f) Intangible assets

(i) Trademarks and licences

Acquired trademarks and licences are shown at historical cost. Trademarks and licences have a finite 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.

(ii) 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 development 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. Costs include the employee costs as a result of developing software and an appropriate portion of relevant overheads.

Notes to the Consolidated Financial Statements

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

(g) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to 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). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(ii) 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 are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Regular purchases and sales of financial assets are recognised on the 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. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

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

(h) Financial Assets *(Continued)*

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other gains/(losses) — net in the period in which they arise.

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

(i) Inventories

Inventories are stated at the lower of 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.

(j) 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 original effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposit held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(l) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. 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.

Notes to the Consolidated Financial Statements

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

(l) Provisions *(Continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Deferred income tax

Deferred income tax 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 consolidated financial statements. Deferred income tax 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 income 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 income tax 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.

(n) Share capital

Ordinary shares are classified as equity.

(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.

Notes to the Consolidated Financial Statements

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

(o) Contingent liabilities and contingent assets *(Continued)*

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 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) Interest income

Interest income from bank deposits is recognised on a time-proportion basis using the effective interest method.

(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.

Notes to the Consolidated Financial Statements

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

(q) Employee benefits *(Continued)*

(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.

(iv) Share-based compensation

The Company's subsidiary in Taiwan, operates a share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(r) Leases (as the lessee for 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 charged in the income statement on a straight-line basis over the period of the lease.

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

(s) 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

3.1 Financial risk factor

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate risk.

Risk management is carried out by the management of the Group. Management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Foreign exchange risk

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

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Management is responsible for managing the net position in each foreign currency.

(b) Credit risk

The credit risk of the Group mainly arises from trade receivables and cash and cash equivalents placed with banks.

Management consider that the Group's exposure to bad debts is not significant since the Group primarily trades with reputable and creditworthy customers. In addition, the Group has credit policies in place to ensure that sales of products are made to customers with appropriate credit history. Collection of outstanding receivable balances and authorised credit limits to individual customers are closely monitored on an ongoing basis.

Exposure to credit arising from bank deposits is managed by placing the deposits to reputable banks and through regular analysis of the financial performance of the banks.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities when necessary.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(d) Cash flow and fair value 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, except for the cash placed with banks.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The nominal value less impairment provision of trade receivables and payables are a reasonable approximate of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Useful lives and residual values of properties, plant and equipment

Management determines the estimated useful lives and residual values for the Group's properties, 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.

Notes to the Consolidated Financial Statements

5. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in design and distribution of integrated circuits and semi-conductor parts and investments holding.

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

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sale of integrated circuits and semi-conductor parts	**125,552**	147,961
Other income		
Bank interest income	**1,791**	724
Sundry income	**1,950**	71
	3,741	795
Total revenues	**129,293**	148,756

(b) Segment information

More than 90% of the Group's revenue and operating profit was attributable to its design and distribution of integrated circuits and semi-conductor parts. Accordingly, no analysis by business segment is included in these financial statements.

Segment information is presented by way of geographical regions as the primary reporting format. An analysis of the Group segment information by geographical segment is set out as follows.

Notes to the Consolidated Financial Statements

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

(b) Segment information *(Continued)*

	2006			
	Hong Kong *HK$'000*	**Taiwan** *HK$'000*	**PRC** *HK$'000*	**Total** *HK$'000*
Revenues	—	121,561	3,991	125,552
Operating profit/(loss)	21,878	8,674	(1,320)	29,232
Income tax credit				355
Profit for the year				29,587
Assets	201,736	119,717	10,347	331,800
Liabilities	(1,498)	(23,359)	(6,903)	(31,760)
Capital expenditures	21	1,031	283	1,335
Depreciation	298	1,243	96	1,637
Amortisation	—	484	21	505
Reversal of provision for impairment loss of trade receivables	—	(205)	—	(205)
(Reversal of)/provision for impairment loss of inventories	—	(1,168)	906	(262)
Financial assets at fair value through profit or loss:				
— unrealised fair value gains	27,617	—	—	27,617
— realised fair value gains	1,979	—	—	1,979

Notes to the Consolidated Financial Statements

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

(b) Segment information *(Continued)*

	2005			
	Hong Kong	Taiwan	PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations:				
Revenues	—	142,987	4,974	147,961
Operating (loss)/profit	(30,787)	8,038	1,544	(21,205)
Finance costs	(193)	—	—	(193)
Loss before taxation				(21,398)
Income tax expense				(1,367)
Loss for the year from continuing operations				(22,765)
Discontinued operation:				
Loss for the year from discontinued operation				(874)
Loss for the year				(23,639)
Assets	183,830	113,143	4,934	301,907
Liabilities	(4,501)	(21,125)	(5,085)	(30,711)
Capital expenditures	1,363	1,087	29	2,479
Depreciation	170	2,441	216	2,827
Amortisation	—	344	21	365
Impairment loss of trade receivables	—	251	—	251
(Reversal of)/provision for impairment loss of inventories	—	(266)	627	361
Financial assets at fair value through profit or loss:				
— unrealised fair value losses	(17,351)	—	—	(17,351)
— realised fair value gains	47	—	—	47

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
At 1 January 2005				
Cost	1,088	4,709	11,121	16,918
Accumulated depreciation	(1,074)	(3,721)	(6,902)	(11,697)
Net book amount	14	988	4,219	5,221
Year ended 31 December 2005				
Opening net book amount	14	988	4,219	5,221
Exchange differences	—	8	(25)	(17)
Additions	493	1,176	25	1,694
Depreciation	(86)	(476)	(2,265)	(2,827)
Closing net book amount	421	1,696	1,954	4,071
At 31 December 2005				
Cost	1,581	5,908	11,008	18,497
Accumulated depreciation	(1,160)	(4,212)	(9,054)	(14,426)
Net book amount	421	1,696	1,954	4,071
Year ended 31 December 2006				
Opening net book amount	421	1,696	1,954	4,071
Exchange differences	—	38	41	79
Additions	—	744	540	1,284
Disposals	—	—	(2)	(2)
Depreciation	(123)	(448)	(1,066)	(1,637)
Closing net book amount	298	2,030	1,467	3,795
At 31 December 2006				
Cost	1,581	6,705	11,826	20,112
Accumulated depreciation	(1,283)	(4,675)	(10,359)	(16,317)
Net book amount	298	2,030	1,467	3,795

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of HK$211,000 (2005: HK$1,374,000) has been charged in cost of goods sold and HK$1,426,000 (2005: HK$1,453,000) in general and administrative expenses.

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
At 1 January 2005			
Cost	1,074	515	1,589
Accumulated depreciation	(1,074)	(515)	(1,589)
Net book amount	—	—	—
Year ended 31 December 2005			
Opening net book amount	—	—	—
Additions	493	870	1,363
Depreciation	(72)	(98)	(170)
Closing net book amount	421	772	1,193
At 31 December 2005			
Cost	1,567	1,385	2,952
Accumulated depreciation	(1,146)	(613)	(1,759)
Net book amount	421	772	1,193
Year ended 31 December 2006			
Opening net book amount	421	772	1,193
Additions	—	21	21
Depreciation	(123)	(175)	(298)
Closing net book amount	298	618	916
At 31 December 2006			
Cost	1,567	1,406	2,973
Accumulated depreciation	(1,269)	(788)	(2,057)
Net book amount	298	618	916

Notes to the Consolidated Financial Statements

7. INTANGIBLE ASSETS

Group

	Computer software *HK$'000*	Patents *HK$'000*	Total *HK$'000*
At 1 January 2005			
Cost	6,259	647	6,906
Accumulated amortisation	(5,999)	(18)	(6,017)
Net book amount	260	629	889
Year ended 31 December 2005			
Opening net book amount	260	629	889
Exchange differences	(7)	(8)	(15)
Additions	520	265	785
Amortisation	(98)	(267)	(365)
Closing net book amount	675	619	1,294
At 31 December 2005			
Cost	6,824	901	7,725
Accumulated amortisation	(6,149)	(282)	(6,431)
Net book amount	675	619	1,294
Year ended 31 December 2006			
Opening net book amount	675	619	1,294
Exchange differences	14	11	25
Additions	—	51	51
Amoritsation	(193)	(312)	(505)
Closing net book amount	496	369	865
At 31 December 2006			
Cost	7,041	975	8,016
Accumulated depreciation	(6,545)	(606)	(7,151)
Net book amount	496	369	865

Amortisation of HK$505,000 (2005: HK$365,000) is included in general and administrative expenses.

Notes to the Consolidated Financial Statements

8. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**88,010**	88,010
Less: Provision for impairment	**(78,000)**	(78,000)
	10,010	10,010

Details of the subsidiaries as at 31 December 2006 were as follows:

Name	Place of incorporation/ establishment and kind of legal entity	Issued/ registered and fully paid capital	Percentage of equity interest attributable to the Group: directly held	Percentage of equity interest attributable to the Group: indirectly held	Principal activities and place of operation
Win Win Property Investments Limited	British Virgin Islands, limited liability company	1 ordinary shares of 1 US dollar each	100%	—	Investments holding in Hong Kong
Wellba Investment Limited	Hong Kong, limited liability company	2 ordinary shares of 1 HK dollar each and 2,000,001 non-voting deferred shares of 1 HK dollar each	—	100%	Inactive
Rockey Company Limited	Hong Kong, limited liability company	2 ordinary shares of 1 HK dollar each	100%	—	Investments holding in Hong Kong
Harvest Century Enterprises Limited	Hong Kong, limited liability company	10,000 ordinary shares of 1 HK dollar each	100%	—	Inactive
SyncMOS Technologies, Inc. (BVI)	British Virgin Islands, limited liability company	1 ordinary shares of 1 US dollar each	100%	—	Investments holding in Hong Kong

Notes to the Consolidated Financial Statements

8. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Issued/ registered and fully paid capital	Percentage of equity interest attributable to the Group		Principal activities and place of operation
			directly held	indirectly held	
Shanghai SyncMOS Semiconductor Company Limited	The PRC, wholly-foreign owned enterprises	Registered capital US$7,000,000	—	100%	Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC
SyncMOS Technologies, Inc. (Cayman Islands)	Cayman Islands, limited liability company	1 ordinary shares of 1 US dollar each	100%	—	Inactive
新茂國際科技股份有限公司 ("SyncMOS Taiwan")	Taiwan, limited liability company	32,000,000 ordinary shares of 10 NT dollar each	—	55%	Design, distribution and trading of electronic materials and components and provision of related agency services in Taiwan

Notes to the Consolidated Financial Statements

8. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

(Continued)

(b) Amounts due from/to subsidiaries

	Company	
	2006	2005
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**88,144**	83,307
Less: Provision for impairment	**(45,504)**	(40,404)
	42,640	42,903
Amounts due to subsidiaries	**(10,343)**	(10,867)

Balance with subsidiaries were unsecured, interest free and repayable on demand. The carrying amounts of the amounts due from/to subsidiaries are approximate their fair value.

9. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**1,142**	2,901
Work-in-progress	**3,818**	4,480
Finished goods	**9,114**	13,154
	14,074	20,535
Less: Provision for impairment	**(1,848)**	(2,110)
	12,226	18,425

The cost of inventories recognised as expense and included in cost of inventories sold amounted to HK$90,207,000 (2005: HK$112,730,000).

Notes to the Consolidated Financial Statements

10. TRADE RECEIVABLES

At 31 December 2006, the aging analysis of trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 — 90 days	**14,362**	16,091
91 — 180 days	**—**	87
	14,362	16,178
Less: Provision for impairment	**(50)**	(252)
	14,312	15,926

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

The carrying amount of trade receivables is approximately its fair values as at 31 December 2006.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity securities in				
— United States	**189,460**	175,861	**189,460**	175,861
— Hong Kong	**22**	29	**—**	—
Market value of listed securities	**189,482**	175,890	**189,460**	175,861

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement *(Note 25)*.

Changes in fair value of the financial assets at fair value through profit or loss are recorded in other gains/(losses) — net in the income statement *(Note 22)*.

The fair value of all equity securities is based on their current bid prices in an active market.

12. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**19,052**	29,428	**2,319**	4,288
Short-term bank deposits *(Note a)*	**83,590**	48,804	**7,544**	—
Cash and cash equivalents	**102,642**	78,232	**9,863**	4,288
Restricted bank deposits *(Note b)*	**245**	239	**—**	—
	102,887	78,471	**9,863**	4,288

Note:

(a) The effective interest rate on short-term bank deposits was 2.41% (2005: 2.33%); these deposits have an average maturity of 53 days.

(b) At 31 December 2006, restricted bank deposits of the Group are pledged to secure the 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 2.13% per annum (2005: 1.70% per annum).

(c) At 31 December 2006, funds of the Group amounting to RMB8,005,000 (2005: RMB2,977,000) are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

13. SHARE CAPITAL

	Number of shares (thousands)	**Ordinary shares** *HK$*	**Share premium** *HK$*
At 1 January 2005, 31 December 2005 and 31 December 2006	336,587	33,659	101,263

The total authorised number of ordinary shares is 50 million shares (2005: 50 million shares) with a par value of HK$0.1 per share (2005: HK$0.1 per share). All issued are fully paid.

Notes to the Consolidated Financial Statements

13. SHARE CAPITAL *(Continued)*

Stock options

On 29 November 2006, an ordinary resolution was passed at a special general meeting regarding the approval of the adoption of share option scheme (the "Scheme") by a non wholly-owned subsidiary, SyncMOS Taiwan. SyncMOS Taiwan may grant options to its full-time employees, including any executive and non-executive directors, to subscribe for shares of SyncMOS Taiwan.

Movements in the number of stock options outstanding and their related weighted average exercise prices are as follows:

	2006	
	Average exercise price in HK$ per share	**Options**
At 1 January	—	—
Granted	2.45	2,960,000
Exercised	—	—
Forfeited	—	—
Lapsed	—	—
At 31 December	2.45	2,960,000

All outstanding share options were not exercisable as at 31 December 2006.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Date of grant	**Exercise period**	**Exercise price** *(HK$ per share)*	**Number of share options**
1 December 2006	1 December 2007 to 31 December 2009	2.45	1,480,000
1 December 2006	1 December 2008 to 31 December 2009	2.45	1,480,000
			2,960,000

13. SHARE CAPITAL *(Continued)*

Stock options *(Continued)*

The weighted average fair value of options granted during the period determined using the Binomial valuation model was HK$1.08 per option. The significant inputs into the model were fair value per share of SynMOS Taiwan of HK$3.42, at the grant date, the exercise price shown above, volatility of 32%, dividend yield of 3.58%, an expected option life of two years and on annual risk-free interest rate of 1.82%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of the companies engaged in similar industry over the last two years prior to the grant date.

14. OTHER RESERVES

Group

	Exchange reserve *HK$'000*	Employee share-based compensation reserve *HK$'000*	Statutory reserve *HK$'000*	Total *HK$'000*
At 1 January 2005	1	—	—	1
Transferred to Taiwan statutory reserve from retained earnings	—	—	1,535	1,535
Currency translation differences	318	—	—	318
At 31 December 2005 and 1 January 2006	319	—	1,535	1,854
Transferred to Taiwan statutory reserve from retained earnings	—	—	511	511
Currency translation differences	1,300	—	—	1,300
Employee share-based compensation scheme	—	196	—	196
At 31 December 2006	1,619	196	2,046	3,861

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 financial statements 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.

Notes to the Consolidated Financial Statements

14. OTHER RESERVES *(Continued)*

Company

	Contributed surplus *HK$*	Capital reserve *HK$*	Total *HK$*
At 1 January 2005, 31 December 2005 and 31 December 2006	137,800	20,566	158,366

The contributed surplus of the Company represent the excess of the net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

15. TRADE PAYABLES

At 31 December 2006, the aging analysis of trade payables of the Group was as follows:

	Group	
	2006 *HK$'000*	2005 *HK$'000*
0 — 90 days	**15,737**	15,692
91 — 180 days	**—**	31
	15,737	15,723

The carrying amount of trade payables is approximately their fair value as at 31 December 2006.

16. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority which is not applicable to the Group.

	Group	
	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	**(740)**	—
— Deferred tax asset to be recovered within 12 months	**(1,011)**	—
	(1,751)	—
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after more than 12 months	**—**	1,300
— Deferred tax liabilities to be settled within 12 months	**—**	—
	—	1,300

The gross movement on the deferred tax liabilities and deferred tax assets during the year is as follows:

Deferred tax assets:

	Tax credit	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**—**	—
Credit to the income statement	**1,751**	—
At 31 December	**1,751**	—

Notes to the Consolidated Financial Statements

16. DEFERRED INCOME TAX *(Continued)*

Deferred tax liabilities:

	Accelerated tax depreciation	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**1,300**	1,300
Credit to the income statement	**(1,300)**	—
At 31 December	**—**	1,300

Deferred tax assets are recognised for tax credit and tax loss carry-forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 December 2006, the Group has unused tax credits and tax losses of approximately HK$9 million (2005: HK$8 million) and HK$37 million (2005: HK$33 million) respectively. The tax credits and tax losses are subject to approval of the relevant tax authorities in respective jurisdictions.

Included in the unrecognised tax credit and tax loss of approximately HK$7 million (2005: HK$6 million) and HK$14 million (2005: HK$15 million) that will expire as follows:

	Tax credits	Tax losses
Expiry	*HK$'million*	*HK$'million*
2007	—	2
2008	—	3
2009	3	2
2010	4	5
2011	—	2
	7	14

17. EXPENSES BY NATURE

	2006	2005
	HK$'000	*HK$'000*
Amortisation of intangible assets	**505**	365
Auditors' remuneration	**1,296**	1,235
Depreciation	**1,637**	2,827
Operating lease rentals in respect of land and buildings	**3,730**	3,035
(Reversal of)/provision for impairment of inventories	**(262)**	361
(Reversal of)/provision for impairment of trade receivables	**(205)**	251
Research and development costs	**14,645**	14,759
Employee benefit expenses (including Directors' emoluments) *(Note 18)*	**19,353**	20,813
Cost of inventory sold	**90,207**	112,730

Notes to the Consolidated Financial Statements

18. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**11,933**	12,964
Bonuses and welfare fund	**6,535**	7,097
Pension costs — defined contribution plans	**689**	752
Share option granted to employees	**196**	—
	19,353	20,813

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2006 and 2005 is set out below:

	2006	2005
	HK$'000	*HK$'000*
Fee for Executive Directors		
— Mr Yip Chi Hung	**—**	—
— Mr Chen Che Yuan	**—**	—
Fee for Non-executive Directors		
— Mr. Cheng Hok Ming, Albert	**100**	100
— Mr. Ma Kwai Yuen	**100**	100
— Mr. Wong Chi Keung	**100**	100
Other emoluments	**—**	—
	300	300

None of the Directors waived any emoluments during the year.

Notes to the Consolidated Financial Statements

18. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

None of the five highest paid individuals was a Director of the Company (2005: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals (2005: five) during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries and allowances	**2,174**	2,469
Bonuses	**1,104**	1,181
Pension costs — defined contribution plan	**91**	60
	3,369	3,710

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**1**	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.

19. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest expense on bank loan		
— wholly repayable within five years	**—**	193

Notes to the Consolidated Financial Statements

20. INCOME TAX (CREDIT)/EXPENSE

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	2006	2005
	HK$'000	*HK$'000*
Current income tax		
— Overseas taxation	**1,816**	1,367
— Underprovision in prior years	**880**	—
Deferred income tax	**(3,051)**	—
	(355)	1,367

Taxation on the Group's profit/(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 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before taxation for continuing operations	**29,232**	(21,398)
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**5,116**	(3,745)
Effect of different taxation rates in other countries	**136**	(34)
Income not subject to taxation	**(4,831)**	(27)
Expenses not deductible for taxation purpose	**1,159**	3,136
Timing differences and tax losses not recognised	**205**	2,037
Recognised tax credit	**(1,751)**	—
Utilisation of previously unrecognised tax credit	**(1,269)**	—
Underprovision in prior years	**880**	—
Tax (credit)/expense	**(355)**	1,367

Notes to the Consolidated Financial Statements

21. PROFIT/LOSS ATTRIBUTABLE TO EQUITY HOLDERS

The profit/loss attributable to equity holders includes a profit of approximately HK$18,911,000 (2005: loss of HK$123,933,000) dealt with in the financial statements of the Company.

22. OTHER GAINS/(LOSSES) — NET

Other gains/(losses) recognised during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss:		
— realised fair value gains	**1,979**	47
— unrealised fair value gains/(losses)	**27,617**	(17,351)
Exchange (losses)/gains — net	**(645)**	382
Total other gains/(losses)	**28,951**	(16,922)

23. EARNING/(LOSS) PER SHARE

The calculation of basic earning/(loss) per share is based on the profit/(loss) for the year attributable to equity holders of approximately HK$25,446,000 (2005: loss of HK$26,655,000) and 336,587,142 shares (2005: 336,587,142 shares) in issue during the year. Details of basic earning/(loss) per share are analysed as follows:

	2006	2005
	HK cents	*HK cents*
Basic earning/(loss) per share		
Continuing operations	7.56	(7.66)
Discontinued operation	—	(0.26)
	7.56	(7.92)

As there are no dilutive potential ordinary shares as at 31 December 2006 and 2005, the dilutive earning/(loss) per share is equal to the basic earning/(loss) per share.

Notes to the Consolidated Financial Statements

24. 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 10 March 2005.

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

	2005 *HK$'000*
Turnover — rental income	726
Other operating expense — Indirect outgoings	(1,468)
Loss from operations	(742)
Finance costs	(132)
Loss before income tax	(874)
Income tax expenses	—
Loss for the year	(874)
Net operating cash inflow	976
Net investing cash inflow	53,850
Net financing cash outflow	(30,450)
Total net cash inflow	24,376
Non-current assets	—
Current assets	—
Total assets	—
Total liabilities	(1,327)
Net liabilities	(1,327)

Notes to the Consolidated Financial Statements

25. NOTES TO CONSOLIDATED CASH FLOWS STATEMENT

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

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**29,232**	(22,272)
Interest income	**(1,791)**	(724)
Interest expense	**—**	325
Amortisation of intangible assets	**505**	365
Depreciation	**1,637**	2,827
Unrealised (gains)/losses from financial assets at fair value through profit or loss/other investments	**(27,617)**	17,351
Realised gains on disposal of financial assets at fair value through profit or loss/other investments	**(1,979)**	(47)
Loss on disposal of investment property	**—**	300
(Reversal)/provision for inventory impairment	**(262)**	361
(Reversal)/provision for trade receivables impairment	**(205)**	251
Operating loss before working capital changes	**(480)**	(1,263)
Decrease in inventories	**6,199**	25,093
Decrease/(increase) in trade and other receivables	**2,621**	(903)
Increase/(decrease) in trade payables and accruals	**1,778**	(4,243)
Decrease/(increase) in balances with related companies	**1,245**	(331)
Net cash inflow generated from operations	**11,363**	18,353

26. COMMITMENTS UNDER OPERATING LEASE

As at 31 December 2006, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	Land and building	
	2006	2005
	HK$'000	*HK$'000*
Total future minimum lease payments payable:		
— Not later than 1 year	**3,170**	3,187
— Later than 1 year and not later than 5 years	**1,779**	3,393
	4,949	6,580

Notes to the Consolidated Financial Statements

27. CONTINGENCIES

It is not anticipated that any material contingent liabilities will arise other than those provided for.

28. RELATED PARTY TRANSACTIONS

Texan Management Limited (incorporated in the British Virgin Islands) and Mosel Vitelic Inc. ("MVI") (a listed company in Taiwan) own 43.3% and 31.5% of the Company's shares respectively. The remaining 25.2% of the shares are widely held.

(a) During the year, the Group undertook the following transactions with related parties in the normal course of its business:

		2006	2005
		HK$'000	*HK$'000*
Income received/receivable:			
Rental income from			
— Fong Wing Shing Construction Company Limited ("Fong Wing Shing"), entity with directorships in common	*(i)*	**238**	194
— PCL Holdings Limited, entity with directorships in common	*(i)*	**—**	97
		238	291
Expense paid/payable to MVI:			
Rental expense	*(ii)*	**495**	809
Management fees expense	*(ii)*	**208**	315
Information system service fees	*(iii)*	**—**	436
Manufacturing service fees	*(iv)*	**—**	893
		703	2,453

Note:

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

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

Notes to the Consolidated Financial Statements

28. RELATED PARTY TRANSACTIONS *(Continued)*

Note: (Continued)

(iii) During the year ended 31 December 2005, the information system services fee was charged at a monthly fixed amount of approximately HK$37,000.

(iv) During the year ended 31 December 2005, the manufacturing service fees paid/payable to MVI were charged at a price mutually agreed between the parties.

(b) Amounts due from/to related companies were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due from				
Fong Wing Shing	**—**	359	**—**	359
MVI	**—**	—	**3**	3
	—	359	**3**	362
Due to				
MVI	**2,349**	1,462	**—**	—

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

The carrying amounts of amounts due from/to related companies were approximately their fair value.

(c) Key management remuneration

	2006	2005
	HK$'000	*HK$'000*
Basic salaries and allowances	**748**	824
Bonuses	**406**	403
Pension cost — defined contribution plan	**15**	14
	1,169	1,241