

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2002, the cash and cash equivalents held by the group was approximately HK\$33.8 million (2001: approximately HK\$66.3 million).

For the year under review, the Group recorded a net cash outflow from operating activities of approximately HK\$12.3 million. Other major cash outflows during the year included purchase of fixed assets of approximately HK\$10.7 million and net repayment of bank loans of approximately HK\$11.0 million.

As at 31st December 2002, the outstanding bank loans of the Group amounted to approximately HK\$62.0 million (2001: approximately HK\$73.0 million).

During the year, the Group arranged a ten-year term loan of HK\$42.0 million by pledging the Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong. The funds obtained were then used to repay the short-term bank loans of the Group.

The management will exercise due care in managing its funding arrangements with an objective of maintaining a comfortable cash flow to meet operational requirements.

GEARING RATIO

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of the total assets, was approximately 36.9% (2001: approximately 40.4%).

Attributed to the reduction of interest rates and the total bank borrowings, the finance cost of the Group decreased to approximately HK\$2.4 million against that of approximately HK\$5.1 million last year.

FOREIGN CURRENCY EXPOSURE

With sales and associated costs were mainly negotiated and settled in NT dollars, the Group was not exposed to substantial foreign currency exposure in its daily operations. The management will continue to monitor the matching of currencies of its investments and borrowings so as to minimize the Group's currency exposure.

During the year, the Group recorded an exchange loss of approximately HK\$0.3 million in the profit and loss account while an exchange difference of approximately HK\$0.2 million was credited to exchange reserves on translation of accounts of overseas subsidiaries upon consolidation.

CAPITAL STRUCTURE

There was no change in the share capital structure of the Company during the year. The net profit attributable to shareholders of approximately HK\$11.9 million was credited to reserves. As at 31st December 2002, the total shareholders funds of the Group amounted to approximately HK\$132.8 million (2001: approximately HK\$127.6 million).

INVESTMENTS AND CAPITAL ASSETS

The value of the Group's other investment appreciated to approximately HK\$102.8 million as compared to approximately HK\$83.2 million last year. The appreciation was mainly attributed to the mark-to-market valuation on the Group's major other investment listed in NASDAQ, ChipMOS Technologies (Bermuda) Limited, resulting in an unrealised gain of approximately HK\$17.5 million.

During the year, the Group purchased fixed assets of approximately HK\$10.7 million to improve its operating efficiency and enhance its product portfolio. The fixed assets purchased included various specifications of masks and probe-cards from Mosel Vitelic Inc., an indirect substantial shareholder of the Company, of approximately HK\$6.2 million.

The investment property at 18 Lee Chung Street, Chai Wan, Hong Kong held by the Group was valued at HK\$56.0 million as at 31st December 2002 (2001: HK\$63.0 million) by an independent valuer. The difference in value of HK\$7.0 million was charged to the investment property revaluation reserve.

CHARGE ON ASSETS

During the year, the Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong was mortgaged to a bank to secure a ten-year term loan with outstanding loan balance as at 31st December 2002 amounted to approximately HK\$38.9 million.

In addition, the Group's rental income and rental deposits were assigned in favour of the bank in respect of the mortgaged investment property. As at 31st December 2002, the amount of restricted cash deposit was approximately HK\$1.6 million (2001: Nil).

As at 31st December 2002, bank deposits of approximately HK\$3.9 million (2001: approximately HK\$4.7 million) were pledged for banking facilities granted.

SEGMENT INFORMATION

The Group's main business was design and trading of integrated circuits. The turnover of this segment amounted to approximately 92% (2001: approximately 95%) of the Group's turnover. Geographically, approximately 84% (2001: approximately 82%) of the total turnover was contributed by the Taiwan operations. Note 2 to the Financial Statements sets out more details on segmental analysis.

HUMAN RESOURCES

The Group offers competitive remuneration package to our employees so as to retain and attract knowledgeable and experienced staff. Apart from salary payments, other benefits to staff include contributions to provident fund and medical benefits. Our salary review is conducted annually and is based on the performance of individual staff. In addition, suitable and up to date training programs are provided to employees for their development.

As at 31st December 2002, the total number of staff of the Group was approximately 67, as compared to approximately 113 as at 31st December 2001.

CONTINGENT LIABILITIES

As at 31st December 2002, the Company provided corporate guarantees of approximately HK\$58.4 million (2001: approximately HK\$69.4 million) to financial institutions for banking facilities utilized by its subsidiaries.