

## 1. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of accounts
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

#### (i) **SSAP 1 (revised): Presentation of accounts**

The presentation of a statement of recognised gains and losses have been changed to a statement of changes in equity due to the adoption of SSAP 1 (revised). As a result, the Group prepared a statement of changes in equity for the year ended 31st December 2002.

#### (ii) **SSAP 11 (revised): Foreign currency translation**

This revised SSAP prescribes the accounting for the translation of balance sheet and profit and loss of subsidiaries expressed in foreign currencies. There is no impact on the financial results and financial position of the Group as the Group had early adopted this revised SSAP in the previous financial year. Accordingly, comparative figures have not been restated.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (a) Basis of presentation (Cont'd)

#### (iii) SSAP 15 (revised): Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of SSAP 15 (revised). As a result, cash flows during the year have been reclassified by operating, investing and financing activities. For the year ended 31st December 2001, interest received of approximately HK\$3,091,000 has been reclassified as investing cash flow and interest paid of approximately HK\$5,056,000 has been reclassified as operating cash flow.

#### (iv) SSAP 34: Employee benefits

This new SSAP prescribes the accounting and disclosure for employee benefits. There is no material impact on the financial results and financial position of the Group by the adoption of this new SSAP and accordingly comparative figures have not been restated.

### (b) Group accounting

#### (i) Consolidation

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

Subsidiaries are those entities in which the company, directly or indirectly, controls the composition of the board of directors; has the power to govern the financial and operating policies; controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (b) **Group accounting** *(Cont'd)*

#### (i) **Consolidation** *(Cont'd)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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 for by the Company on the basis of dividends received and receivable.

#### (ii) **Translation of foreign currencies**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts in Hong Kong dollars. Accounts of foreign consolidated subsidiaries are translated at year-end exchange rate with respect to the balance sheet, and at an average rate for the year with respect to the profit and loss account. Exchange differences arising from such translations are dealt with as movements of exchange reserve.

### (c) **Turnover**

Turnover comprises:

- (i) gross invoiced sales net of returns and discounts;
- (ii) rental income from leasing of investment properties;
- (iii) gross design fees net of business tax;
- (iv) gross agency service fees net of business tax;
- (v) gross commission income from distribution of semi-conductor parts to third parties.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

#### (i) Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

#### (ii) Operating lease rental income

Operating lease rental income is recognised on a straight-line basis over the lease term.

#### (iii) Design fees

Design fees are recognised when design services are rendered.

#### (iv) Agency service fees and commission income

Agency service fees and commission income are recognised when the related services are rendered.

#### (v) 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.

### (e) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (e) Fixed assets and depreciation *(Cont'd)*

Depreciation is provided on a straight-line basis at an annual rate estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

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

The useful lives of assets and depreciation method are reviewed periodically.

### (f) Intangibles

#### (i) Negative goodwill

Any excess, as at the date of acquisition, of the Group's interest in the fair value of the intangible assets and liabilities acquired over the costs of the acquisition, should be recognised as negative goodwill. Negative goodwill is presented as a separate item in the balance sheet and it is recognised in the profit and loss account as follows:

- (a) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.
- (b) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

#### (ii) Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Internally generated intangible assets are charged against income in the period incurred except for development costs which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (f) Intangibles (Cont'd)

#### (ii) (Cont'd)

- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year end. The estimated useful life is as follows:

Computer software	5 years
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### (g) Investment property

Investment property represents interests in land and buildings in respect of which construction work and development have been completed and which are held for their long-term investment potential, any rental income being negotiated at arm's length.

Investment property is included in the balance sheet at its open market value, on the basis of an annual valuation by independent qualified valuers. Increases in the carrying amount of investment properties are credited to the revaluation reserve in shareholders' equity. Decreases are first offset against increases on earlier valuations in respect of the same investment property and are thereafter charged to the profit and loss account. Increases on revaluations directly related to a previous decrease in carrying amount for the same property that was recognised as an expense is credited to income to the extent that it offsets the previously recorded decrease.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### **(g) Investment property** *(Cont'd)*

Upon the disposal of an investment property, the relevant portion of the revaluation reserve is credited to the profit and loss account as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

### **(h) Impairment and gain or loss on sale**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, intangible assets and investments in subsidiaries are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of an asset included in fixed assets, intangible assets or investments in subsidiaries is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### **(i) Other investments**

Securities, which include both debt and equity securities, intended to be held on a continuing basis, are classified as investment securities. Securities other than investment securities or held-to-maturity securities are classified as other investments and are carried at fair value in the balance sheet. An unrealised holding gain or loss on other investments is recognised in the profit and loss account in the period when it arises.

Upon disposal or transfer of other investments, any profit or loss thereon is accounted for in the profit and loss account.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (j) Inventories

Inventories are stated at the lower of actual cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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. Provision is made for obsolete, slow-moving or defective items where considered necessary by the directors.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of a write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (k) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (m) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.



## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (n) **Deferred taxation**

Deferred taxation is provided under the liability method, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that it is probable that a liability or asset will crystallize.

### (o) **Operating leases**

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the profit and loss account in the period in which they are incurred.

### (p) **Subsequent events**

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the accounts. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### (q) **Employee benefits**

#### (i) ***Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (q) Employee benefits (Cont'd)

#### (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 defined contribution pension schemes for its employees; the assets of which are held separately from those of the Group in an independently administered fund. The Group's contributions to the defined contribution pension schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The employees of the Company's subsidiaries in the People's Republic of China ("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 of these schemes is the required contributions under the schemes.

### (r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Segment information on business and geographical segments is presented in Note 2 to the accounts.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for based on mutually agreed transfer prices and are eliminated in consolidation.

## 2. SEGMENT INFORMATION

### (a) By business segment

The Group is primarily engaged in (i) the design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties, (ii) investment property holding and (iii) investment holding.

	2002					Total	2001					Total
	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties	Investment property holding	Investment holding	Unallocated amounts	Eliminations		Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties	Investment property holding	Investment holding	Unallocated amounts	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>												
External	70,109	6,124	—	—	—	76,233	86,533	6,446	—	—	—	92,979
Inter-segment	—	—	—	—	—	—	1,787	—	—	—	(1,787)	—
Total turnover	70,109	6,124	—	—	—	76,233	88,320	6,446	—	—	(1,787)	92,979
<b>Cost of sales</b>												
External	(56,798)	—	—	—	—	(56,798)	(67,787)	—	—	—	—	(67,787)
Inter-segment	—	—	—	—	—	—	(1,529)	—	—	—	1,529	—
Gross profit	13,311	6,124	—	—	—	19,435	19,004	6,446	—	—	(258)	25,192
<b>Other revenue</b>												
External	36	23	260	—	—	319	5,345	65	745	—	—	6,155
Inter-segment	—	—	35,439	—	(35,439)	—	566	—	7,003	—	(7,569)	—
	36	23	35,699	—	(35,439)	319	5,911	65	7,748	—	(7,569)	6,155

## 2. SEGMENT INFORMATION (Cont'd)

## (a) By business segment (Cont'd)

	2002						2001					
	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts	Investment property holding	Investment holding	Unallocated amounts	Eliminations	Total	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts	Investment property holding	Investment holding	Unallocated amounts	Eliminations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment expenses</b>												
Distribution costs	(3,975)	—	—	—	—	(3,975)	(8,693)	—	—	—	—	(8,693)
General and administrative expenses	(24,721)	(2,780)	(4,556)	(2)	4,629	(27,430)	(36,722)	(2,028)	(7,170)	(21)	5,617	(40,324)
Other operating income/(expenses)	1,665	—	20,309	800	—	22,774	1,517	—	(55,479)	—	4,394	(49,568)
Profit/(loss) from operations	(13,684)	3,367	51,452	798	(30,810)	11,123	(18,983)	4,483	(54,901)	(21)	2,184	(67,238)
Finance costs						(2,405)						(5,098)
Profit/(loss) before tax						8,718						(72,336)
Taxation						(394)						(590)
Profit/(loss) before minority interests						8,324						(72,926)
Minority interests						3,585						4,228
Net profit/(loss) attributable to shareholders						11,909						(68,698)
Total segment assets	85,313	58,798	110,013	(1,062)	—	253,062	106,788	63,927	96,280	(2,104)	—	264,891
Total segment liabilities	27,020	1,920	754	63,765	—	93,459	30,817	1,840	877	73,580	—	107,114
Capital expenditures for segment assets	7,531	—	—	—	—	7,531	9,670	—	—	—	—	9,670
Depreciation & amortisation	6,995	—	14	—	—	7,009	4,409	—	28	—	—	4,437
Provision for inventory obsolescence	2,125	—	—	—	—	2,125	4,328	—	—	—	—	4,328
Provision for doubtful debts	127	—	—	—	—	127	1,040	—	—	—	—	1,040

## 2. SEGMENT INFORMATION (Cont'd)

### (b) By geographical location:

	Turnover		Contribution to net profit/(loss) from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	6,124	6,446	6,124	6,446
Taiwan	63,656	76,298	9,270	10,863
The People's Republic of China	6,453	10,235	4,041	7,883
	<b>76,233</b>	92,979	<b>19,435</b>	25,192
Other revenues			319	6,155
Expenses, net			(11,036)	(103,683)
Profit/(loss) before tax			<b>8,718</b>	(72,336)

## 3. OTHER REVENUES

Analysis of other revenues is as follows:

	2002 HK\$'000	2001 HK\$'000
Interest income	412	3,091
Exchange (loss)/gain, net	(293)	2,978
Others	200	86
	<b>319</b>	6,155

## 4. OTHER OPERATING INCOME/(EXPENSES)

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000 (Note 29)
Unrealised gain/(loss) arising from mark-to-market valuation of other investments, net	<b>17,263</b>	(52,362)
Write-back of provisions for doubtful debts (Note 5)	<b>345</b>	1,273
Negative goodwill recognised as income	<b>800</b>	801
Refund of withholding tax on dividend income from overseas' other investments received in prior years	<b>1,539</b>	—
Gain on sale of other investments	<b>1,317</b>	476
Gain on disposal of product manufacturing rights	<b>723</b>	—
Gain on disposal of test boards and test programs expensed off in prior years	<b>826</b>	—
Others	<b>(39)</b>	244
	<b>22,774</b>	(49,568)

## 5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging and crediting the following items:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
<b>Charging:</b>		
Auditors' remuneration		
— underprovision in prior years	<b>31</b>	—
— current year	<b>954</b>	865
Depreciation of fixed assets	<b>3,342</b>	1,272
Amortisation of intangible assets	<b>3,667</b>	3,165
Staff costs (including directors' and senior executives' emoluments)		
— salaries and wages	<b>14,819</b>	25,194
— provision for staff and workers' bonus and welfare fund	<b>1,030</b>	1,955
— contribution to defined contribution plan	<b>109</b>	89
	<b>15,958</b>	27,238
Operating lease rentals in respect of land and buildings	<b>1,710</b>	3,801
Loss on disposal of fixed assets	<b>1,856</b>	275
Provision for inventory obsolescence	<b>2,125</b>	4,328
Research costs	<b>13,210</b>	18,776
Unrealised loss arising from mark-to-market valuation of other investments	<b>241</b>	52,362
Interest expenses on bank loans, overdrafts and other loans	<b>2,405</b>	5,056
Cost of inventories	<b>56,798</b>	67,787
Provision for doubtful debts	<b>127</b>	1,040
Exchange loss, net	<b>293</b>	—
<b>Crediting:</b>		
Gross rental income from investment property	<b>6,124</b>	6,446
Less: Outgoings	<b>(407)</b>	(401)
	<b>5,717</b>	6,045
Unrealised gain arising from mark-to-market valuation of other investments	<b>17,504</b>	—
Gain on sale of other investments	<b>1,317</b>	476
Write-back of provisions for doubtful debts (Note 4)	<b>345</b>	1,273
Exchange gain, net	<b>—</b>	2,978
Interest income on bank deposits	<b>412</b>	3,091

## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees for executive directors	—	—
Fees for non-executive directors	<b>200</b>	200
Other emoluments for executive directors		
— basic salaries and allowances	—	238
— provident fund contributions	—	18
	<b>200</b>	456

The executive directors waived their emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	<b>2002</b>	2001
Nil to \$1,000,000	<b>5</b>	6
\$1,000,001 to \$1,500,000	—	—
\$1,500,001 to \$2,000,000	—	—
	<b>5</b>	6

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries and allowances	<b>2,756</b>	2,992
Bonus	<b>244</b>	443
Contributions to provident fund	<b>89</b>	62
	<b>3,089</b>	3,497



## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

### (b) (Cont'd)

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as inducement to join or as compensation for loss of office.

Analysis of emoluments paid to the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	<b>2002</b>	2001
Nil to \$1,000,000	<b>4</b>	4
\$1,000,001 to \$1,500,000	<b>1</b>	1
\$1,500,001 to \$2,000,000	<b>—</b>	—
	<b>5</b>	5

None (2001: None) of the five highest paid individuals was a director of the Company, whose emoluments have been included in Note 6.a.

## 7. TAXATION

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) 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 respective overseas jurisdictions.

	<b>2002</b> <b>HK\$'000</b>	2001 <b>HK\$'000</b>
Hong Kong profits tax	<b>180</b>	250
Overseas taxation	<b>214</b>	340
	<b>394</b>	590

There was no significant unprovided deferred taxation as at 31st December 2002.

## 8. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a net profit of approximately HK\$46,198,000 (2001: net loss of approximately HK\$61,592,000) dealt with in the accounts of the Company.

## 9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year ended 31st December 2002 is based on the consolidated net profit attributable to shareholders of approximately HK\$11,909,000 (2001: net loss of approximately HK\$68,698,000) and the weighted average number of 336,587,142 shares (2001: 336,587,142 shares) in issue during the year.

Diluted earnings per share is not presented as there is no dilutive effect on the earnings per share for 2002.

## 10. INVESTMENT PROPERTY

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Balance, beginning of year	<b>63,000</b>	70,000
Deficit on revaluation	<b>(7,000)</b>	(7,000)
Balance, end of year	<b>56,000</b>	63,000

The Group's investment property is situated at 18 Lee Chung Street, Chai Wan, Hong Kong under a medium-term lease. The property is rented out under operating leases.

The Group's investment property was revalued on 31st December 2002 by Vigers Hong Kong Limited, an independent qualified valuer, at its open market value on an existing use basis.

As a result of the revaluation, a decrease in value of the Group's investment property of approximately HK\$7,000,000 (2001: HK\$7,000,000) was charged to the investment property revaluation reserve (Note 22).

As at 31st December 2002, the Group's investment property was mortgaged to the bank as security for banking facilities granted (Note 26).

## 11. OTHER FIXED ASSETS

### Group

	2002			Total HK\$'000	2001 Total HK\$'000
	Leasehold fixtures and improvements HK\$'000	Furniture, equipment HK\$'000	Plant and machinery HK\$'000		
<b>Cost</b>					
Beginning of year	1,073	7,978	4,356	13,407	6,424
Additions	—	739	9,975	10,714	7,362
Disposals/write off	(5)	(430)	(4,605)	(5,040)	(379)
Reclassifications	—	(2,550)	2,550	—	—
Effect of foreign exchange rate changes	—	13	66	79	—
End of year	1,068	5,750	12,342	19,160	13,407
<b>Accumulated depreciation</b>					
Beginning of year	1,068	3,151	272	4,491	3,323
Charge for the year	—	697	2,645	3,342	1,272
Disposals/write off	—	(153)	(1,181)	(1,334)	(104)
Reclassifications	—	(202)	202	—	—
Effect of foreign exchange rate changes	—	1	7	8	—
End of year	1,068	3,494	1,945	6,507	4,491
<b>Net book value</b>					
End of year	—	2,256	10,397	12,653	8,916
Beginning of year	5	4,827	4,084	8,916	3,101

## 11. OTHER FIXED ASSETS (Cont'd)

## Company

	2002		2001	
	Furniture, Leasehold fixtures and improvements HK\$'000	equipment HK\$'000	Total HK\$'000	Total HK\$'000
<b>Cost</b>				
Beginning and end of year	1,074	515	1,589	1,589
<b>Accumulated depreciation</b>				
Beginning of year	1,074	480	1,554	1,526
Charge for the year	—	14	14	28
End of year	1,074	494	1,568	1,554
<b>Net book value</b>				
End of year	—	21	21	35
Beginning of year	—	35	35	63

## 12. INTANGIBLE ASSETS

### Group

#### Computer software HK\$ '000

#### Cost

Beginning of year	15,648
Additions	169
Effect of foreign exchange rate changes	38
End of year	15,855

#### Accumulated amortisation

Beginning of year	4,712
Charge for the year	3,667
Effect of foreign exchange rate changes	26
End of year	8,405

#### Net book value

End of year	7,450
Beginning of year	10,936

**13. NEGATIVE GOODWILL****Group**

HK\$'000

**Cost**

Beginning and end of year	(4,260)
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**Accumulated amortisation**

Beginning of year	2,123
Charge for the year	800

End of year	2,923
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**Net book value**

End of year	(1,337)
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Beginning of year	(2,137)
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**14. INVESTMENTS IN SUBSIDIARIES**

In the Company's balance sheet, investments in subsidiaries comprised:

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	88,010	88,010
Amounts due from subsidiaries	94,207	111,837
	<b>182,217</b>	199,847
Less: Provision for impairment in value	<b>(22,873)</b>	(22,873)
	<b>159,344</b>	176,974

#### 14. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Except for the outstanding balance with Wellba Investment Limited which bore interest at 8% (2001: 10%) per annum, all other outstanding balances with subsidiaries were unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries have become financially capable to do so.

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 2002.

Details of the subsidiaries as at 31st December 2002 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	
Ryder Properties Limited	British Virgin Islands	US\$1 ordinary	100%	—	Inactive
Win Win Property Investments Limited	British Virgin Islands	US\$1 ordinary	100%	—	Investment holding
Wellba Investment Limited	Hong Kong	HK\$2 ordinary HK\$2,000,001 non-voting deferred	—	100%	Investment property holding
Rockey Company Limited	Hong Kong	HK\$2 ordinary	100%	—	Investment holding
Harvest Century Enterprises Limited	Hong Kong	HK\$10,000 ordinary	100%	—	Inactive
SyncMOS Technologies, Inc. (BVI)	British Virgin Islands	US\$1 ordinary	100%	—	Investment holding
Shanghai SyncMOS Semiconductor Company Limited	Shanghai, the People's Republic of China (the "PRC")	US\$5,000,000 ordinary	—	70%	Design, trading of integrated circuit products and provision of agency services and distribution of products
總茂電子技術(深圳)有限公司*	Shenzhen, the PRC	US\$1,000,000 ordinary	—	100%	Inactive

## 14. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Issued and fully paid capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly held	Indirectly held	
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%	Wholesale distribution of electronic and materials components and design; trading of integrated circuit products and related agency services

\* As at 31st December 2002, 總茂電子技術(深圳)有限公司 is in the process of deregistration.



## 15. INVENTORIES

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	<b>1,035</b>	924
Work-in-progress	<b>18,050</b>	12,864
Finished goods	<b>5,179</b>	4,234
	<b>24,264</b>	18,022
Less: Provision for inventory obsolescence	<b>(6,453)</b>	(4,328)
	<b>17,811</b>	13,694

Of the amount stated above, the amount of inventories carried at net realisable value is approximately HK\$1,917,000 (2001: HK\$830,000).

## 16. ACCOUNTS RECEIVABLE

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accounts receivable	<b>14,829</b>	2,753
Less: Provision for doubtful debts	<b>(1,364)</b>	(1,582)
	<b>13,465</b>	1,171

Aging analysis of accounts receivable less provision for doubtful debts is as follows:

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0-90 days	<b>13,415</b>	996
91-180 days	<b>50</b>	150
181-365 days	—	25
Over 365 days	—	—
	<b>13,465</b>	1,171

The Group normally grants credit periods to customers ranging from 30 days to 120 days.

## 17. OTHER INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed equity securities in the U.S.	80,017	62,514	80,017	62,514
Listed equity securities in Hong Kong	25	75	—	—
Listed short-term investment funds in Taiwan	22,751	20,605	—	—
	<b>102,793</b>	83,194	<b>80,017</b>	62,514
Quoted market value for listed equity securities as at year end	<b>102,793</b>	83,194	<b>80,017</b>	62,514

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	Percentage of shares held	Class of shares held
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	5%	Ordinary

At 31 December 2002, the quoted market value was approximately US\$2.5 (2001: US\$2) (equivalent to HK\$20.0 (2001: HK\$15.6)) per share.

## 18. ACCOUNTS PAYABLE AND ACCRUALS

Included in accounts payable and accruals were accounts payable, accrued charges and other payables as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accounts payable	17,938	13,245	—	—
Accrued charges and other payables	9,030	11,011	755	797
	<b>26,968</b>	24,256	<b>755</b>	797

Aging analysis of accounts payable is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
0-90 days	17,853	5,238	—	—
91-180 days	—	7,895	—	—
181-365 days	—	—	—	—
Over 365 days	85	112	—	—
	<b>17,938</b>	13,245	—	—

## 19. LONG-TERM BANK LOANS

	2002 HK\$'000	2001 HK\$'000
Loans		
Unsecured	—	—
Secured	38,850	754
	<b>38,850</b>	754
Current portion of long-term bank loans	(4,200)	—
	<b>34,650</b>	754

**19. LONG-TERM BANK LOANS** (Cont'd)

As at 31st December 2002, the Group's bank loans were repayable as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Within one year	<b>4,200</b>	—
In the second year	<b>4,200</b>	754
In the third to fifth year inclusive	<b>12,600</b>	—
After the fifth year	<b>17,850</b>	—
	<b>38,850</b>	754

The long-term bank loans were secured and interest bearing at prevailing market rates (Note 26).

**20. SHORT-TERM BANK LOANS**

As at 31st December 2002, all of the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year (Note 26).

**21. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Nominal value</b> HK\$'000
<i>Authorised —</i>		
Ordinary shares of HK\$0.1 each	500,000,000	50,000
<i>Issued and fully paid —</i>		
Ordinary shares of HK\$0.1 each	336,587,142	33,659

## 22. RESERVES

### Group

	2002				Total HK\$'000	Total HK\$'000
	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000		
Beginning of year	101,263	10,694	(2,757)	(15,234)	93,966	172,017
Deficit on revaluation of investment property	—	(7,000)	—	—	(7,000)	(7,000)
Movement in exchange difference	—	—	247	—	247	(2,353)
Profit/(loss) for the year	—	—	—	11,909	11,909	(68,698)
End of year	101,263	3,694	(2,510)	(3,325)	99,122	93,966

### Company

	2002				Total HK\$'000	Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000		
Beginning of year	101,263	137,800	20,566	(108,061)	151,568	213,160
Profit/(loss) for the year	—	—	—	46,198	46,198	(61,592)
End of year	101,263	137,800	20,566	(61,863)	197,766	151,568

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.

The share premium and capital reserve are not distributable under Bermuda Company Law and the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$75,937,000 (2001: HK\$29,739,000).

## 23. SHARE OPTION SCHEME

On 25th January 1994, a share option scheme was approved by the shareholders of the Company, under which the Directors may, at their discretion, invite employees of the Group, including senior executives and directors, to take up options to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. During the year, no new share options were granted. As at 31st December 2002, the total number of share options granted was 9,000,000 (2001: 9,000,000) expiring in August 2003. The scheme will remain in force for a period of ten years from 25th January 1994, being the date of its adoption.

Details of the share options outstanding as at 31st December 2002 were as follows:

Name of participant	Date of grant	Exercise period	Subscription price per share	Number of share options		
				Beginning of year	Cancelled or exercised during the year	End of year
Seto Yee Woon, John	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	5,000,000	—	5,000,000
Pang Hong	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	1,500,000	—	1,500,000
Chang Chueh Pin	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	2,500,000	—	2,500,000
				9,000,000	—	9,000,000

## 24. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Profit/(loss) before tax	<b>8,718</b>	(72,336)
Unrealised (gain)/loss arising from mark-to-market valuation of other investments, net	<b>(17,263)</b>	52,362
Loss on disposal of fixed assets	<b>1,856</b>	275
Gain on disposal of other investments	<b>(1,317)</b>	(476)
Interest income on bank deposits	<b>(412)</b>	(3,091)
Interest expense	<b>2,405</b>	5,056
Depreciation of fixed assets	<b>3,342</b>	1,272
Amortization of intangible assets	<b>3,667</b>	3,165
Recognition of negative goodwill as other operating income	<b>(800)</b>	(801)
(Increase)/decrease in inventories	<b>(4,117)</b>	3,348
(Increase)/decrease in accounts receivable	<b>(12,294)</b>	27,373
Decrease in notes receivable	<b>209</b>	2,054
Decrease in amount due from a former subsidiary	<b>—</b>	30,600
Decrease/(increase) in prepayments, deposits and others	<b>9,199</b>	(8,236)
Decrease/(increase) in amounts due from related companies	<b>845</b>	(1,146)
Increase in amount due from a minority shareholder	<b>(1)</b>	—
Increase in restricted cash deposits	<b>(1,646)</b>	—
Decrease/(increase) in pledged deposits	<b>772</b>	(1,170)
Increase in long-term deposits	<b>(6)</b>	(678)
Increase/(decrease) in accounts payable and accruals	<b>2,712</b>	(17,528)
Decrease in bills payable	<b>—</b>	(11,859)
(Decrease)/increase in amounts due to related companies	<b>(6,001)</b>	6,315
Increase in amount due to minority shareholders	<b>277</b>	55
Net cash (outflow)/inflow generated from operations	<b>(9,855)</b>	14,554

**24. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS** (Cont'd)

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

	2002			Total HK\$'000	2001 Total HK\$'000
	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Minority interests HK\$'000		
Beginning of year	754	72,270	30,152	103,176	103,935
Exchange differences	—	7	—	7	—
Additional loan	42,000	19	—	42,019	754
Repayment of loans	(3,150)	(49,893)	—	(53,043)	(29,899)
Minority interests' share of net loss	—	—	(3,585)	(3,585)	(4,228)
Minority interests' share of exchange reserve	—	—	255	255	—
Contributions from minority shareholders	—	—	—	—	32,614
Reclassification from long-term to short-term bank loans	(754)	754	—	—	—
End of year	38,850	23,157	26,822	88,829	103,176

**25. COMMITMENTS****Operating lease commitments**

As at 31st December 2002, the total future minimum lease payments payable under non-cancellable operating leases are payable as follows:

	2002 HK\$'000	2001 HK\$'000
Total future minimum lease payments payable:		
— Not later than 1 year	1,513	1,611
— Later than 1 year and not later than 5 years	113	494
	1,626	2,105



## 25. COMMITMENTS (Cont'd)

### Operating lease commitments (Cont'd)

The investment property of the Group is rented under operating leases. As at 31st December 2002, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Total future minimum lease payments receivable:		
— Not later than 1 year	<b>3,426</b>	5,101
— Later than 1 year and not later than 5 years	<b>1,961</b>	1,386
	<b>5,387</b>	6,487

## 26. BANKING FACILITIES

As at 31st December 2002, the Group had aggregate banking facilities of approximately HK\$142,507,000 (2001: HK\$103,631,000). Unused facilities as at the same date amounted to approximately HK\$80,500,000 (2001: HK\$30,607,000). These facilities were secured by:

- (a) Bank deposits of approximately HK\$3,911,000 (2001: HK\$4,683,000);
- (b) First mortgage of the Group's investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong in favour of the bank (Note 10);
- (c) Assignment of rentals and rental deposits and the creation of a charge on the cash deposits in respect of the mortgaged investment property as mentioned in (b) above. As at 31st December 2002, the amount of restricted cash deposits was approximately HK\$1,646,000 (2001: Nil);
- (d) First mortgage in favor of the bank over certain properties held by related companies;
- (e) The Company's corporate guarantee for the amount drawn of HK\$38,850,000 as at 31st December 2002, in respect of the Group's long-term bank loans; and
- (f) Corporate guarantees from related companies and the Company's corporate guarantee for any amount drawn by a subsidiary of the Company, Harvest Century Enterprises Limited, in respect of the HK\$100,000,000 banking facilities jointly held with a related company ("Joint Banking Facilities") as mentioned in the next paragraph.

The Joint Banking Facilities are available for usage by the Group and to the extent of any unused portion by the Group, by the related company. As at 31st December 2002, HK\$19,500,000 were drawn by the Group (Note 27.f).

## 27. 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) On 26th September 2002, 新茂國際科技股份有限公司 (“JV Co.”), a non wholly-owned subsidiary of the Company, entered into an agreement to purchase various specifications of masks and probe-cards (the “Equipments”) from Mosel Vitelic Inc. (“MVI”) for a total consideration of NT\$27,371,831 (approximately HK\$6,240,777). The Directors reviewed the value of the Equipments and considered that the consideration paid of NT\$27,371,831 (approximately HK\$6,240,777) is fair and reasonable by reference to the quotation of comparable masks and probe-cards provided by current market leaders of mask houses and probe-card houses.
- (b) During the year, the Group entered into transactions with the following related companies — Fong Wing Shing Construction Company Limited (“Fong Wing Shing”), PCL Holdings Limited (“PCL”) and Mosel Vitelic Inc. (“MVI”).

	Notes	2002 HK\$'000	2001 HK\$'000
Rental income from Fong Wing Shing*	(i)	461	502
Rental income from PCL*	(i)	1,203	1,212
Manufacturing service fees payable to MVI**	(ii)	12,586	8,177
Purchase of fixed assets from MVI	27.a	6,241	7,113
Rental payable to MVI	(iii)	762	1,688
Management fees payable to MVI	(iii)	460	1,483
Information system service fees payable to MVI	(iv)	410	277
Product-testing fees payable to MVI	(iv)	695	204
Sales to Ultima***		—	464

- (i) The rental was charged to related companies under normal commercial terms based on the floor area occupied.
- (ii) The independent non-executive directors reviewed and confirmed that the manufacturing service fees payable to MVI under the Foundry Agreement were conducted:
- on normal commercial terms and in the ordinary and usual course of business of the Company; and
  - on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

## 27. RELATED PARTY TRANSACTIONS (Cont'd)

(b) (Cont'd)

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

(iv) The product-testing fee was charged at cost by MVI in respect of its staff assigned to the JV Co.; whilst the information system service fee was charged at a monthly fixed amount of approximately HK\$34,000.

(c) Amounts due from related companies as at 31st December 2002 were as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Fong Wing Shing	3	42	—	—
Ultima	—	512	—	—
Ark Logic Inc. ****	—	142	—	—
PCL Holdings Limited	135	—	—	—
MVI	190	477	3	3
	<b>328</b>	1,173	<b>3</b>	3

(d) Amounts due to related companies as at 31st December 2002 were as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Fong Wing Shing	63	94	—	—
Ultima	—	2,237	—	—
Sun-Fund Securities Inc.*****	—	7	—	—
DenMOS Technology Inc.*****	—	16	—	—
PCL Holdings Limited	223	301	1	85
MVI	2,406	6,038	—	—
	<b>2,692</b>	8,693	<b>1</b>	85

**27. RELATED PARTY TRANSACTIONS** (Cont'd)

## (d) (Cont'd)

- \* Fong Wing Shing Construction Company Limited and PCL Holdings Limited are two companies over which Mr. Yip Chi Hung and Mr. Pang Hong, who are Directors, are in a position to exercise significant influence.
- \*\* MVI, is an indirect substantial shareholder of the Company.
- \*\*\* In 2001, Ultima was an associated company of MVI.
- \*\*\*\* Ark Logic Inc. is a subsidiary of MVI.
- \*\*\*\*\* Sun-Fund Securities Inc. is a subsidiary of MVI.
- \*\*\*\*\* DenMOS Technology, Inc. is a subsidiary of MVI.

(e) The outstanding balances with related companies and minority shareholders; and amounts due to subsidiaries were all unsecured, interest free and repayable within one year.

## (f) Joint Banking Facilities

As at 31st December 2002, the Group had Joint Banking Facilities with a related company of HK\$100,000,000. The Joint Banking Facilities were secured by a first mortgage in favour of the bank over certain properties held by related companies, corporate guarantees from related companies and the Company. The Company's corporate guarantee is limited to any amount drawn by a subsidiary of the Company under the Joint Banking Facilities (Note 26).

**28. CONTINGENT LIABILITIES**

As at 31st December 2002, the Company had provided corporate guarantees of HK\$58,350,000 (2001: HK\$69,393,000) to financial institutions in respect of banking facilities utilised by its subsidiaries.

**29. COMPARATIVE FIGURES**

The accounts as at and for the year ended 31st December 2001 were audited and reported by certified public accountants other than PricewaterhouseCoopers, whose report dated 19th April 2002 expressed an unqualified opinion on those accounts.

Certain of the comparative figures have been reclassified to conform to the current year's presentation. Gain on sale of other investments of approximately HK\$476,000 previously included in the account caption "Other revenue" has been reclassified to "Other operating income". Additionally, other operating income of approximately HK\$476,000 and total segment assets of approximately HK\$20,605,000 in the Group's segmental information presented by business segment have been reclassified from the segment of "Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties" to the segment of "Investment holding".

**30. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 8th April 2003.