

The Directors have the pleasure of presenting their annual report together with the audited financial statements of PacMOS Technologies Holdings Limited (formerly known as PCL Enterprises Holdings Limited) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 16 to the accompanying financial statements.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 12th July, 2001 at a special general meeting of the Company and approval from the Registrar of Companies in Bermuda, the Company changed its name from PCL Enterprises Holdings Limited to PacMOS Technologies Holdings Limited with effect from 12th July, 2001.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the five largest customers of the Group accounted for approximately 59% of the Group’s total turnover while the largest customer of the Group accounted for approximately 25% of the Group’s total turnover. In addition, for the year ended 31st December, 2001, the five largest suppliers of the Group accounted for approximately 90% of the Group’s total purchases while the largest supplier of the Group accounted for approximately 63% of the Group’s total purchases.

Mosel Vitelic Inc., an indirect substantial shareholder, was one of the Group’s five largest suppliers.

Save as disclosed above, at no time during the year have the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company’s share capital) had a beneficial interest in the Group’s five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group’s results for the year ended 31st December, 2001 are set out in the consolidated income statement on page 22 of this annual report.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated losses of approximately HK\$15,234,000 as at 31st December, 2001 be carried forward.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in Notes 23 and 25, respectively, to the accompanying financial statements.

RESERVES AND ACCUMULATED LOSSES

Movements in reserves and accumulated losses of the Group and the Company during the year are set out in Note 24 to the accompanying financial statements.

As at 31st December, 2001, approximately HK\$29,739,000 of the Company's reserves was available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2001.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would obligate the Company to offer new shares on a pro rata basis to the existing shareholders.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 16 to the accompanying financial statements.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of the movements in fixed assets and investment property during the year are set out in Notes 12 and 15, respectively, to the accompanying financial statements.

Particulars of the major property of the Group as at 31st December, 2001 are set out on page 56 of this annual report.

BANK LOANS

Particulars of bank loans as at 31st December, 2001 are set out in Notes 21 and 22 to the accompanying financial statements.

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in Note 27 to the accompanying financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of the annual report.

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year ended 31st December, 2001.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year ended 31st December, 2001 and up to the date of this report are:

Executive directors:

Seto Yee Woon, John

Pang Hong

Yip Chi Hung

Liang Ming Cheng

(Resigned on 10th May, 2001)

Independent non-executive directors:

Fung Choi On

Wong Chi Keung

In accordance with article 99 of the Company's Bye-laws, Messrs. Pang Hong will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of the directors in the securities of the Company's subsidiary, 新茂國際科技股份有限公司, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares			Percentage of equity held
	Personal interests	Corporate interests	Total	
Seto Yee Woon, John	450,000	—	450,000	1.41%

Save as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st December, 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme, under which it may grant options to directors, senior executives and employees of the Group to subscribe for the Company's shares. The share options granted to and held by the Company's directors during the year ended 31st December, 2001 were as follows:

Name of director	Date of grant	Exercise period	Subscription price per share	Number of share options		
				Beginning of year	Cancelled or exercised during the year	Eng 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	Ditto	Ditto	HK\$0.824	1,500,000	—	1,500,000
				<u>6,500,000</u>		<u>6,500,000</u>

Save as disclosed above, at no time during the year ended 31st December, 2001 was the Company or any of its holding companies or subsidiaries a party to any arrangement to enable any of the Company's directors, their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EMPLOYEE SHARE OPTIONS

The purpose of the employee share options scheme is to attract and retain the best available personnel for positions of substantial responsibility, to provide performance incentive to the directors, senior executives and employees of the Company and its subsidiaries and to promote the success of the Company's business.

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. The subscription price was determined by the Company's Board of Directors, based on 80% of the average of the closing price of the ordinary shares of the Company quoted on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date of offer (i.e. 26th August, 1997) but excluding the date of offer of options, i.e. 19th to 22nd August, 1997, (both days inclusive) and 25th August, 1997.

Participants include any employee and senior executive or director of the Company or any subsidiaries.

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised and issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the scheme.

The total number of shares available for issue under the scheme was 33,658,714 (representing approximately 10% of the issued share capital of the Company as at the date of this annual report).

During the year, no new share options were granted. As at 31st December, 2001, the total number of share options granted was 9,000,000 (2000 - 11,750,000) 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 movement of the employee share options during the year ended 31st December, 2001 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	Ditto	Ditto	HK\$0.824	1,500,000	—	1,500,000
Tam Pui Na, Rafia	Ditto	Ditto	HK\$0.824	250,000	(250,000)	—
Chang Chueh Pin	Ditto	Ditto	HK\$0.824	2,500,000	—	2,500,000
Yu Swei Yam	Ditto	Ditto	HK\$0.824	2,500,000	(2,500,000)	—
				<u>11,750,000</u>	<u>(2,750,000)</u>	<u>9,000,000</u>

Details of the scheme are also set out in Note 25 to the accompanying financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the following entities (not being a director or chief executive of the Company) had registered an interest of 10% or more of the issued share capital of the Company:

Name of Shareholder	Number of issued shares	Percentage holding
Texan Management Limited	145,610,000	43.3%
Vision2000 Venture Ltd.	106,043,142	31.5%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2001.

CONNECTED TRANSACTIONS

During the year, the Group had certain transactions with connected parties as set out below:

- On 8th January, 2001, SyncMOS Technologies, Inc. (BVI) ("SyncMOS"), a wholly-owned subsidiary of the Company, entered into an agreement with Mao-Fu Investment Co., Ltd. ("MF"), a related company, to set up a joint venture company in Taiwan named 新茂國際科技股份有限公司 ("JV Co."), for the wholesale distribution of electronic materials and components and the provision of industrial and commercial services and product design. Upon and since the incorporation of the JV Co., the JV Co. has been held as to 55% by SyncMOS, approximately 10.94% by MF and approximately 34.06% by other minority shareholders (including certain connected persons of the Group). The capital contribution by SyncMOS in the JV Co. was NT\$176 million (equivalent to approximately HK\$41.9 million) in cash.

MF is a subsidiary of Mosel Vitelic Inc. ("MVI") which indirectly holds approximately 31.5% of the issued share capital of the Company and is accordingly a substantial shareholder and connected person of the Company pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

The JV Co. also entered into a Lease and a Foundry Agreement with MVI on 8th January, 2001 and 11th January, 2001, respectively. Accordingly, the entering into of the Lease and Foundry Agreement with MVI constituted connected transactions for the Company under the Listing Rules.

For the year ended 31st December, 2001, rental of approximately HK\$1,688,000 (2000 - Nil) and management fees of approximately HK\$1,483,000 (2000 - Nil) was payable to MVI.

Furthermore, the transactions carried out pursuant to the Foundry Agreement also constituted on-going connected transactions for the Company under the Listing Rules. In this respect, a waiver, for a period of three years, in relation to strict compliance with the Listing Rules was granted by The Stock Exchange of Hong Kong Limited on 14th March, 2001. The principal terms of the Foundry Agreement include the following:

- (i) The JV Co. commissions MVI to manufacture products in accordance with the mask sets, the mask tapes, the specifications designed or developed submitted by the JV Co.;
- (ii) MVI agrees to use its facilities and processes to manufacture the products exclusively for the JV Co. pursuant to the agreed requirements; and
- (iii) MVI shall not allow any third party to use or deal with the mask sets, mask tapes, process parameters (except with the express written consent of the JV Co.) and shall return forthwith any of the same to the JV Co. upon its request.

The consideration payable by the JV Co. to MVI for services rendered will be based on the following:

- (i) transfer price per layer: 10% mark-up on per layer cost averaged 5 years;
- (ii) for embedded flash products: 0% mark-up on per layer cost averaged 5 years; and
- (iii) the transfer price model will be reviewed by the parties every 3 months.

During the year, the manufacturing service fee under the Foundry Agreement of approximately HK\$8,177,000 (2000- Nil) was payable to MVI.

The independent non-executive directors of the Company have reviewed and confirmed the following:

- (i) The connected transactions under the Foundry Agreement were:
 - (a) on normal commercial terms;
 - (b) in the ordinary and usual course of business of the Company; and
 - (c) fair and reasonable so far as the shareholders of the Company are concerned.
- (ii) For the year ended 31st December, 2001, the aggregate value of the consideration payable by the JV Co. to MVI pursuant to the Foundry Agreement did not exceed 25% of the JV Co.'s total cost of goods sold.

- (2) On 4th December, 2001, the JV Co. purchased fixed assets comprising personal computers and notebook computers, printers and scientific research and development equipment at a total sum of NT\$32,010,085 (equivalent to approximately HK\$7,113,000) from MVI. The purchase constituted a connected transaction under the Listing Rules.
- (3) Rental income of approximately HK\$502,000 and HK\$1,212,000 (2000 - HK\$502,000 and HK\$1,212,000) were received and/or became receivable from Fong Wing Shing Construction Company Limited and PCL Holdings Limited, respectively. The directors of the Company, Mr. Yip Chi Hung and Mr. Pang Hong, are in a position to exercise significant influence over these companies.
- (4) Information system service fee of approximately HK\$277,000 (2000 - Nil) and products testing fee of approximately HK\$204,000 (2000 - Nil) was payable by the JV Co. to MVI.

Save as disclosed above, there were no other transactions, which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

20

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by this annual report except that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

The audit committee of the Company had held two meetings on 25th September, 2001 and 12th April, 2002, respectively. The meetings were held for the purposes of reviewing the internal control of the Company and considering issues arising from the finalisation of the interim and final financial statements of the Company.

AUDITORS

Arthur Andersen & Co retire and, being eligible, offer themselves for re-appointment as the Company's auditors for the ensuing year. A resolution for their re-appointment is to be proposed at the forthcoming annual general meeting.

By order of the Board
Seto Yee Woon, John
Chairman

Hong Kong,
19th April, 2002.