

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts of PacMOS Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December 2004.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 17 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 2 to the accounts.

Results and appropriations

Details of the Group's results for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 19.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 25 to the accounts.

Distributable reserves of the Company at 31st December 2004, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$191,660,000 (2003: HK\$287,396,000).

Share capital

Details of the share capital of the Company are set out in Note 24 to the accounts.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Pre-emptive rights

There is no provision 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 existing shareholders.

Investment property and other fixed assets

Details of the movements in investment property and other fixed assets of the Group are set out in Notes 13 and 14 to the accounts respectively.

Particulars of the major property of the Group as at 31st December 2004 are set out on page 60.

REPORT OF THE DIRECTORS

Bank loans

Particulars of bank loans as at 31st December 2004 are set out in Notes 22 and 23 to the accounts. There was no interest capitalised by the Group during the year.

Five year financial 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 5.

Charitable donations

The Group did not make any charitable donations during the year.

Share options

The Company has a share options scheme, under which it may grant options to directors, senior executives and employees of the Group to subscribe for the Company's shares. 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 closing price of the ordinary shares in the Company quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the five business days immediately preceding the date of offer.

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 scheme expired on 24th January 2004, after being in force for ten years from 25th January 1994, being the date of its adoption. As a result, no share options remained outstanding as at 31st December 2004 (2003: Nil). No new share option scheme had been proposed by the Board of Directors and approved by shareholders since then.

REPORT OF THE DIRECTORS

Directors and directors' service contracts

The Directors during the year ended 31st December 2004 and up to the date of this report are:

Executive directors:

Seto Yee Woon, John

Pang Hong

Yip Chi Hung

Independent non-executive directors:

Fung Choi On

Wong Chi Keung

Cheng Hok Ming, Albert (appointed on 30th September 2004)

In accordance with bye-law 99 of the Company's bye-laws, Mr. Yip Chi Hung will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with bye-law 99 of the Company's bye-laws, Mr. Pang Hong will retire by rotation at the forthcoming annual general meeting and, being eligible, may offer himself for re-election.

In accordance with bye-law 102 of the Company's bye-laws, Mr. Cheng Hok Ming, Albert will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The Company received the Independent Non-executive Directors' confirmations of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considered all the Independent Non-executive Directors are independent.

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Chief Executives' interest and short positions in the shares, underlying shares and debentures of the Company of any associated corporation

As at 31st December 2004, the interest of the Director 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 under Section 352 of the Securities and Futures Ordinance ("SFO") or as notified to the Company were as follows:

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

REPORT OF THE DIRECTORS

Directors' and Chief Executives' interest and short positions in the shares, underlying shares and debentures of the Company of any associated corporation

(Continued)

Save as disclosed above, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interests, short positions or rights to subscribe for shares of the Company or its associated corporations as defined in the SFO.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

Directors' interests in contracts

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 a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

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%

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

For the year ended 31st December 2004, the five largest customers of the Group accounted for approximately 68% of the Group's total turnover while the largest customer of the Group accounted for approximately 43% of the Group's total turnover. In addition, for the year ended 31st December 2004 the five largest suppliers of the Group accounted for approximately 98% of the Group's total purchases while the largest supplier of the Group accounted for approximately 45% of the Group's total purchases.

REPORT OF THE DIRECTORS

Major customers and suppliers *(Continued)*

Save as disclosed above, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

Connected transactions

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

- (1) Pursuant to the Foundry Agreement entered into by 新茂國際科技股份有限公司 ("JV Co."), a non wholly-owned subsidiary of the Company, with MVI, manufacturing service fees of approximately HK\$1,065,000 (2003: HK\$13,205,000) were payable to MVI during the year. The transaction constituted on-going connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). In this respect, a waiver, was granted by the Stock Exchange in relation to strict compliance with the Listing Rules, for a period of three years from 11th January 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 as 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 expressed written consent of the JV Co.) and shall return forthwith any of the same to the JV Co. upon its request.

The independent non-executive directors reviewed and confirmed that the connected transactions under the Foundry Agreement were conducted:

- (a) on normal commercial terms and in the ordinary and usual course of business of the Company; and
- (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

For the year ended 31st December 2004, 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.

REPORT OF THE DIRECTORS

Connected transactions *(Continued)*

- (2) Rental income of approximately HK\$292,000 and HK\$960,000 (2003: HK\$324,000 and HK\$1,182,000) were received and/or become receivable from Fong Wing Shing Construction Company Limited and PCL Holdings Limited, respectively. The Directors, Mr. Yip Chi Hung and Mr. Pang Hong, are in a position to exercise significant influence over these companies. The rental was charged under normal commercial terms based on the floor area occupied and was no less than those charged to other third party tenants of the Group.
- (3) Information system service fees of approximately HK\$421,000 (2003: HK\$409,000) was payable by the JV Co. to MVI. The information system service fee was charged at a monthly fixed amount of approximately HK\$35,000 (2003: HK\$34,000). The Directors consider that the transaction was conducted under normal commercial terms.
- (4) Operating lease rental and management fees of approximately HK\$782,000 (2003: HK\$759,000) and HK\$304,000 (2003: HK\$479,000) respectively were payable by the JV Co. to MVI. The rental and management fees were charged on normal commercial terms.

16

During the year, the JV Co. renewed its operating lease rental with MVI, following the expiry of the lease agreement on 8th January 2004. The new term is for a period of 2 years from 9th January 2004 to 8th January 2006. The terms of the lease were arrived at after arm's length negotiation and were on normal commercial terms by reference to open market rental as appraised by an independent valuer for comparable premises. The transaction was approved by the Board of Directors on 2nd January 2004.

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.

Compliance with the Code of Best Practice of the Listing Rules

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 ended 31st December 2004 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 written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

Audit committee *(Continued)*

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluations. The Committee comprises three independent non-executive directors. Two meetings were held during the year.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

Subsequent events

Details of significant subsequent events are set out in the Note 31 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Seto Yee Woon, John

Chairman

Hong Kong, 25th April 2005