

06

Interim Report



PacMOS Technologies Holdings Limited

(Stock Code: 1010)

Condensed Consolidated Balance Sheet

		Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Plant and equipment	5	3,525	4,071
Intangible assets	5	1,080	1,294
Long-term deposits		729	717
Total non-current assets		5,334	6,082
Current assets			
Inventories		12,869	18,425
Trade receivables	6	15,819	15,926
Prepayments, deposits and other receivables		2,935	6,754
Financial assets at fair value through profit or loss	7	168,681	175,890
Amount due from a related company	15	—	359
Restricted bank deposits		243	239
Cash and cash equivalents		97,678	78,232
Total current assets		298,225	295,825
Total assets		303,559	301,907
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	8	33,659	33,659
Reserves		197,784	196,076
Shareholders' funds		231,443	229,735
Minority interests		40,804	41,461
Total equity		272,247	271,196

		Unaudited	Audited
		30 June	31 December
		2006	2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		—	1,300
		—	1,300
Current liabilities			
Trade payables	9	12,785	15,723
Other payables and accruals		12,463	10,773
Amount due to a related company	15	1,787	1,462
Amount due to minority shareholders of a subsidiary	15	2,641	—
Current income tax liabilities		1,636	1,453
Total current liabilities		31,312	29,411
Total liabilities		31,312	30,711
Total equity and liabilities		303,559	301,907
Net current assets		266,913	266,414
Total assets less current liabilities		272,247	272,496

The notes on pages 6 to 16 form an integral part of these condensed financial statements.

Condensed Consolidated Income Statement

		Unaudited Six months ended 30 June	
		2006	2005
		HK\$'000	HK\$'000
	Note		
Continuing operations			
Sales	3	62,078	73,332
Cost of sales	10	(44,938)	(62,961)
Gross profit		17,140	10,371
Other gains	3	4,946	7,727
Distribution costs	10	(1,349)	(1,761)
General and administrative expenses	10	(16,500)	(12,671)
		4,237	3,666
Finance costs		—	(193)
Profit before income tax		4,237	3,473
Income tax expense	11	(263)	(68)
Profit from continuing operations		3,974	3,405
Discontinued operation			
Loss from discontinued operation	14	—	(404)
Profit for the period		3,974	3,001
Attributable to:			
Equity holders of the Company		1,493	2,842
Minority interest		2,481	159
		3,974	3,001
Basic earnings per share	12	0.44 cents	0.84 cents
Diluted earnings per share		N/A	N/A
Dividends	13	—	—

The notes on pages 6 to 16 form an integral part of these condensed financial statements.

Condensed Consolidated Statement of Changes in Equity

	Unaudited							
	Attributable to equity holders of the Company							
	Other				Share-			
	Share capital	Share premium	Exchange reserve	statutory reserve	Retained earnings	holders' fund	Minority interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2005	33,659	101,263	1	—	121,149	256,072	44,192	300,264
Currency translation differences	—	—	1,024	—	—	1,024	913	1,937
Profit for the period	—	—	—	—	2,842	2,842	159	3,001
Balance at 30 June 2005	33,659	101,263	1,025	—	123,991	259,938	45,264	305,202
Balance at 1 January 2006	33,659	101,263	319	1,535	92,959	229,735	41,461	271,196
Transfer to Taiwan statutory reserve	—	—	—	510	(510)	—	—	—
Currency translation differences	—	—	215	—	—	215	180	395
Dividend to minority shareholders of a subsidiary	—	—	—	—	—	—	(3,318)	(3,318)
Profit for the period	—	—	—	—	1,493	1,493	2,481	3,974
Balance at 30 June 2006	33,659	101,263	534	2,045	93,942	231,443	40,804	272,247

The notes on pages 6 to 16 form an integral part of these condensed financial statements.

Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Cash flows from operating activities		
— Continuing operations	18,678	9,074
— Discontinued operation	—	976
Net cash flows from operating activities	18,678	10,050
Cash flows from investing activities		
— Purchase of plant and equipment	(264)	(1,329)
— Purchase of intangible assets	(52)	(232)
— Interest received	630	211
— Discontinued operation	—	53,850
Net cash flows from investing activities	314	52,500
Cash flows from financing activities		
— Repayment of bank loan	—	19,500
— Discontinued operation	—	30,450
Net cash used in financing activities	—	49,950
Net increase in cash and cash equivalents	18,992	12,600
Cash and cash equivalents at 1 January	78,232	59,097
Effect of foreign exchange rate changes	454	1,915
Cash and cash equivalents at 30 June	97,678	73,612
Analysis of cash and cash equivalent balances		
Cash at bank and in hand	97,678	73,612

The notes on pages 6 to 16 form an integral part of these condensed financial statements.

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

The financial statements are presented in Hong Kong dollars (HK\$), which is the same as the functional currency of the Company. The address of the registered office and principal place of business of the Company is 27th Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong.

These unaudited condensed consolidated financial statements (“interim financial statements”) are presented in Hong Kong dollars, unless otherwise stated. They have been approved for issue by the Board of Directors of the Company on 22 September 2006.

2. Basis of preparation and accounting policies

The interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These interim financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

HKICPA has issued a number of new standards, amendments to standards and interpretations that effective for accounting periods beginning on or after 1 January 2006. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

3. Turnover and Revenues

Revenues recognised during the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of integrated circuits and semi-conductor parts	62,078	73,332
Other gains		
Bank interest income	630	211
Financial assets at fair value through profit or loss:		
Realised fair value gains	1,823	47
Unrealised fair value gains	2,292	7,220
Rental income	119	143
Sundry income	82	106
	4,946	7,727
	67,024	81,059

4. Segment reporting

For the period ended 30 June 2006, more than 90% of the Group's turnover and operating profit were attributable to its sales of integrated circuits and semi-conductor parts in Taiwan. Accordingly, no analysis by either business or geographical segment is included in these condensed financial statements.

5. Capital expenditure

	Plant and equipment <i>HK\$'000</i>	Intangible assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2005	5,221	889	6,110
Additions	1,329	232	1,561
Depreciation and amortisation	(1,549)	(166)	(1,715)
Currency translation differences	94	17	111
At 30 June 2005	5,095	972	6,067
Cost			
At 1 January 2006	4,071	1,294	5,365
Additions	264	52	316
Depreciation and amortisation	(854)	(288)	(1,142)
Currency translation differences	44	22	66
At 30 June 2006	3,525	1,080	4,605

6. Trade receivables

The Group normally allows an average credit period of 30 to 90 days to its customers. An aging analysis of trade receivables is as follows:

	Unaudited 30 June 2006 <i>HK\$'000</i>	Audited 31 December 2005 <i>HK\$'000</i>
0 to 90 days	15,825	16,091
91 to 180 days	—	87
	15,825	16,178
Less: Provision for impairment of receivables	(6)	(252)
	15,819	15,926

7. Financial assets at fair value through profit or loss

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Listed equity securities in		
— United States of America	168,655	175,861
— Hong Kong	26	29
Market value of listed securities	168,681	175,890

The carrying amounts of the above financial assets are classified as held for trading.

Other 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 condensed cash flow statement.

Changes in fair value of the financial assets at fair value through profit or loss are recorded in other gains in the condensed income statement.

8. Share capital

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Authorised:		
500,000,000 ordinary share of HK\$0.1 each	50,000	50,000
Issued and fully paid:		
336,587,142 ordinary share of HK\$0.1 each	33,659	33,659

9. Trade payables

At 30 June 2006 the aging analysis of the trade payables is as follows:

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
0 to 90 days	12,785	15,692
91 to 180 days	—	31
	12,785	15,723

10. Expenses by nature

Expenses included in cost of sales, distribution costs, general and administrative expenses and other operating expenses are:

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Amortisation of intangible assets	288	166
Auditors' remuneration	600	684
Depreciation of plant and equipment	854	1,549
Exchange loss, net	864	300
Operating lease rentals in respect of land and building	1,642	1,194
(Reversal)/provision for impairment of trade receivables	(246)	11
Research and development costs	7,941	6,850
Staff costs (including Directors' emoluments)	10,618	7,551
Cost of inventory sold	43,037	61,053

11. Income tax expense

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profit for the period. Overseas taxation has been calculated on the estimated assessable profit for the period at the rates prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
— Hong Kong profits tax	—	—
— Overseas taxation	755	68
Under provision in prior year	808	—
Deferred income tax	(1,300)	—
	263	68

12. Earnings per share

Earnings per share attributable to equity holders of the Company arises from continuing and discontinued operations as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Basic earnings per share for profit from continuing operations attributable to the equity holders of the Company (expressed in Hong Kong cents per share)	0.44	0.96
Basic earnings per share for loss from discontinued operation attributable to the equity holders of the Company (expressed in Hong Kong cents per share)	—	(0.12)

As there are no dilutive potential ordinary shares as at 30 June 2006 and 2005, the dilutive earnings per share are equal to the basic earnings per share.

13. Dividends

The Directors do not recommend the payment of a dividend (six months ended 30 June 2005: Nil).

14. Discontinued operation

Wellba Investment Limited, a wholly owned subsidiary of the Company, had disposed of an investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong (the "Property"), to a third party at a total a cash consideration of HK\$51,700,000. The completion date for the disposal of the Property was on 10 March 2005.

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Turnover — rental income	—	726
Other operating expense — Indirect outgoings	—	(998)
Loss from operations	—	(272)
Finance costs	—	(132)
Loss before income tax	—	(404)
Income tax	—	—
Loss for the period	—	(404)
Net operating cash inflow	—	976
Net investing cash inflow	—	53,850
Net financing cash outflow	—	(30,450)
Total net cash inflow	—	24,376
	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Non-current assets	—	—
Current assets	—	—
Total assets	—	—
Total liabilities	—	(1,327)
Net liabilities	—	(1,327)

15. 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) During the period, the Group undertook the following significant transactions with related parties:

		Unaudited	
		Six months ended 30 June	
		2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income from			
Fong Wing Shing Construction Company Limited			
("Fong Wing Shing")	<i>(i)</i>	119	46
PCL Holdings Limited ("PCL")	<i>(i)</i>	—	97
		119	143
Expenses paid/payable to Mosel Vitelic Inc. ("MVI")			
Rental expenses	<i>(ii)</i>	412	424
Management fees	<i>(ii)</i>	257	374
Information system service fees	<i>(iii)</i>	—	222
Manufacturing service fees	<i>(iv)</i>	—	911
		669	1,931

- (i) The rental was charged to related companies based on the floor area occupied.
- (ii) The rental and management fees payable to MVI were charged by reference to open market rental as appraised by an independent valuer for comparable premises.

- (iii) The information system services fee was charged at a monthly fixed amount of approximately HK\$37,000.
- (iv) The manufacturing service fees payable to MVI were at a price mutually agreed between the parties.

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

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Due from Fong Wing Shing	—	359
Due to MVI	1,787	1,462
Minority shareholders of a subsidiary	2,641	—

Balances with related parties were unsecured, interest-free and repayable on demand.

(c) Key management compensation

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	369	362
Bonus	90	88
Retirement benefit costs	91	69
	550	519

16. Commitments

At 30 June 2006, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Total future minimum lease payments payable:		
— Not later than 1 year	3,173	3,187
— Later than 1 year and not later than 5 years	3,309	3,393
	6,482	6,580

Results

For the period under review, the Group achieved a turnover of approximately HK\$62.1 million, as compared to that of the corresponding period last year of approximately HK\$73.3 million. The profit attributable to shareholders was approximately HK\$1.5 million as compared to approximately HK\$2.8 million for the corresponding period last year.

Dividend

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2006.

Business Review

Design and distribution of integrated circuit and semi-conductor parts

For the period under review, due to market competition on prices, the turnover of the Group's main business decreased around 15% as compared to that of the corresponding period last year.

The Group achieved an improvement in gross profit of approximately HK\$17.1 million for the current period as compared to that of the corresponding period last year of approximately of HK\$10.4 million. The improvement in gross profit is attributable to the fact that there was a sharp increase in wafer costs in the corresponding period last year and the costs of wafer have been back to normal for the current period under review.

Investment holding

As at 30 June 2006, the Group held approximately 3.7 million shares of ChipMOS Technologies (Bermuda) Limited ("ChipMOS"), a company listed in the NASDAQ. ChipMOS is a leading provider of semiconductor testing and assembly services to customers in Taiwan, Japan and the United States of America.

As at 30 June 2006, the quoted market price of ChipMOS was approximately US\$5.88 per share as compared to approximately US\$5.80 per share as at 31 December 2005. For the period under review, an unrealised gain of approximately HK\$2.3 million was recorded by the Group due to mark to market valuation of the shares.

During the period, the Group sold approximately 210,000 shares of ChipMOS in the NASDAQ market with an average price of approximately US\$6.9 per share. The quoted market price of ChipMOS as at 20 September 2006 was approximately US\$6.14.

Future plans and prospects

The Group will continue to focus on its main business in design and trading of integrated circuit products, with emphasis in the Greater China region. The management expects there will be greater market competition in the second half of the year and in year 2007. We shall meet the market challenges by enhancing the functions of our existing products and developing new products.

Liquidity and Financial Resources

As at 30 June 2006, the cash and cash equivalents of the Group amounted to approximately HK\$97.7 million as compared to that as at 31 December 2005 of approximately HK\$78.2 million.

For the period under review, the net cash inflow of the Group amounted to approximately HK\$19.0 million, of which approximately HK\$18.7 million was cash inflow from operating activities.

As at 30 June 2006, the Group has no outstanding bank loans and no financing cost was incurred for the period under review.

Gearing Ratio

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of total assets, was approximately 10.3% (31 December 2005: approximately 10.2%). There was no material change in gearing ratio of the Group. No debt financing has been raised during the period under review.

Foreign Currency Exposure

As the main operation of the Group is in Taiwan, the Group's results are exposed to exchange fluctuations of New Taiwan dollars. However, such exchange risk is expected not to be significant under the current economic environment.

For the period under review, an exchange adjustment of approximately HK\$0.2 million was credited to reserves upon translation of overseas operations.

Capital Structure

There was no change in the share capital of the Company for the year under review. The profit attributable to shareholders of approximately HK\$1.5 million was transferred to reserves. As at 30 June 2006, the shareholders' fund was approximately HK\$231.4 million (31 December 2005: HK\$229.7 million).

Investments and Capital Assets

For the period under review, total additions to plant and equipment and intangible assets amounted to approximately HK\$0.3 million as compared to approximately HK\$1.6 million for the corresponding period of last year.

Charge on Assets

As at 30 June 2006, restricted bank deposits amounted to approximately HK\$0.2 million, mainly for the purpose of securing payment of value added tax as required by Taiwan Tax Bureau.

Segmental Information

Design and distribution of integrated circuit and semi-conductor parts is the main business of the Group. Geographically, approximately 98% of the Group's turnover was contributed by the Taiwan operations for the period under review.

Human Resources

There is no material change in the headcount of the Group. As at 30 June 2006, the number of staff was approximately 87.

Contingent Liabilities

No material contingent liabilities of the Group were noted as at 30 June 2006.

Purchase, Sale or Redemption Of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2006.

Directors' Interests in Securities

As at 30 June 2006, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Substantial Shareholders' Interest of the Company

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30 June 2006, 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%

Audit Committee

The Audit Committee comprises three independent non-executive directors who together have substantial experience in auditing, business and regulatory affairs.

Review of Financial Statements

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006, in the presence of the Company's external auditors.

Corporate Governance

None of the Directors is aware of information that would reasonably indicate the Company is not or was not for any part of the accounting period covered by the 2006 interim report, in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except the following deviations from Code A.4.1 and A.4.2:

1. subsequent to the publication of the Corporate Governance Report in the 2005 Annual Report and at the 2006 Annual General Meeting, a special resolution was passed to amend the bye-laws of the Company to the effect that (a) any director elected in general meeting by ordinary resolution to fill a casual vacancy or as an addition to the Board shall be subject to rotation and retirement requirement at annual general meeting, at which one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the nearest but no less than one-third, shall retire from office by rotation; (b) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at the meeting; and (c) every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years; and

2. The Independent Non-executive Directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

To further strengthen the communication between the Board and the Committees, Mr Yip Chi Hung, Chairman of the Board, was appointed as additional committee member of the Remuneration and Nomination Committees in May 2006. Currently, both the Remuneration and Nomination Committees consist of four members namely, Messrs Wong Chi Keung (chairman), Cheng Hok Ming, Albert, Ma Kwai Yuen and Yip Chi Hung.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All directors of the Company have confirmed, after specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2006.

On behalf of the board

Yip Chi Hung

Chairman

Hong Kong, 22 September 2006