

# Report of the Directors

The directors of PacMOS Technologies Holdings Limited (the “Directors”) submit their report together with the audited financial statements of PacMOS Technologies Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investments holding. The activities of its subsidiaries are set out in Note 8 to the financial statements.

An analysis of the Group’s performance for the year by geographical segment is set out in Note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

Details of the Group’s results for the year ended 31 December 2006 are set out in the consolidated income statement on page 28.

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 the consolidated statement of changes in equity on page 32 and Note 14 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 13 to the financial statements.

## 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.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in Note 6 to the financial statements.

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## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2006, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$86,638,000 (2005: HK\$67,727,000).

## 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

On 29 November 2006, an ordinary resolution was passed at a special general meeting regarding the approval of the adoption of share option scheme (the “Scheme”) by a non wholly owned subsidiary, 新茂國際科技股份有限公司 (“SyncMOS Taiwan”). SyncMOS Taiwan may grant options to its full-time employees, including any executive and non-executive directors, to subscribe for shares of SyncMOS Taiwan.

Details of the share options outstanding as at 31 December 2006 which have been granted under the Scheme are as follows:

Grantee	Date of grant	Exercise price HK\$	Exercise period	At 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2006
Employees	1 December 2006	2.45	1 December 2007 to 31 December 2009	—	1,480,000	—	—	1,480,000
	1 December 2006	2.45	1 December 2008 to 31 December 2009	—	1,480,000	—	—	1,480,000

Particulars of the Scheme are set out in Note 13 to the financial statements.

# Report of the Directors

## DIRECTORS

The Directors during the year ended 31 December 2006 and up to the date of this report are:

### Executive Directors:

Yip Chi Hung  
Chen Che Yuan (appointed on 9 March 2006)  
Seto Yee Woon, John (resigned on 9 March 2006)

### Independent Non-executive Directors:

Wong Chi Keung  
Cheng Hok Ming, Albert  
Ma Kwai Yuen

In accordance with the Company's bye-law ("Bye-law") 99, Messrs. Yip Chi Hung and Cheng Hok Ming, Albert will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all the Independent Non-executive Directors are independent.

## DIRECTORS' SERVICE CONTRACTS

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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 3 and 4 of this annual report.

## DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of directors' and senior management's emoluments are set out in Note 18 to the financial statements.

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## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 Part XV of the SFO., and any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 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%

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its associated corporations a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

## 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.

## 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.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the five largest customers of the Group accounted for approximately 71% of the Group's total turnover while the largest customer of the Group accounted for approximately 41% of the Group's total turnover. In addition, for the year ended 31 December 2006 the five largest suppliers of the Group accounted for approximately 95% of the Group's total purchases while the largest supplier of the Group accounted for approximately 40% of the Group's total purchases.

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

Certain related party transactions as disclosed in note 28 to the financial statements also constituted connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

1. Rental income of approximately HK\$238,000 (2005: HK\$194,000) was received and become receivable from Fong Wing Shing Construction Company Limited. Mr. Yip Chi Hung, director of the Company, is 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.
2. Operating lease rental and management fees of approximately HK\$495,000 (2005: HK\$809,000) and HK\$208,000 (2005: HK\$315,000) respectively were payable by SyncMOS Taiwan to Mosel Vitelic Inc. ("MVI").

On 5 January 2006, SyncMOS Taiwan entered into a new lease agreement with MVI for renewal of the lease agreement being expired on 8 January 2006 for a period of two years from 9 January 2006 to 8 January 2008 including a total area of 324 ping (equivalent to approximately 11,525 square feet) and 8 car-parking spaces at a monthly rental of NT\$278,640 (equivalent to approximately HK\$67,000) plus service charges NT\$117,651 (equivalent to approximately HK\$28,000) exclusive of tax. The transaction was approved by the Board of Directors on 29 December 2005.

Subsequently, due to expansion of the business of SyncMOS Taiwan, the premises under the new lease agreement become no longer sufficient for the need of SyncMOS Taiwan. SyncMOS Taiwan moved the office to another premises leased from an independent third party. The new lease agreement was, therefore, terminated on 8 August 2006 by mutual consent. Neither party was liable to pay any compensation to the other party in respect of the termination. The transaction was approved by the Board of Directors on 22 June 2006.

The above transactions were negotiated on an arm's length basis, in the ordinary course of business of the Group and on normal commercial terms.

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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 ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

During the year, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules except deviations from Code A.4.1 and A.4.2. A detailed Corporate Governance Report is set out on pages 18 to 25 in the annual report.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules to regulate the directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

## EMOLUMENT POLICY

The emoluments of the Directors are determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group’s affairs and the Company’s performance.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of more than 25% of the Company’s issued shares at the latest practicable date prior to the issue of the annual report.

## COMPETING BUSINESS

None of the Directors has interest in any business which may compete with the business of the Group.

## AUDIT COMMITTEE

In April 1999, the Company established an audit committee with written terms of reference adopted which were subsequently amended in early April 2006. The audit committee comprises solely independent non-executive directors, namely Messrs. Wong Chi Keung (Chairman), Cheng Hok Ming, Albert and Ma Kwai Yuen. Its primary responsibilities include reviewing and supervising the Company’s financial reporting process and internal control systems. The Audit Committee and the management have reviewed the accounting principles and practices which adopted by the Group and discussed auditing, internal control, and financial reporting matters including review of unaudited interim financial statements and audited annual financial statements. The audit committee has also reviewed the audited financial statements of the Group for the year ended 31 December 2006.

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## AUDITORS

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

On behalf of the Board

**Yip Chi Hung**

*Chairman*

Hong Kong, 11 April 2007