

The Directors have the pleasure of presenting their annual 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 2002.

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 14 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 2002 are set out in the consolidated profit and loss account on page 24.

The Directors do not recommend the payment of any dividend.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in Notes 21 and 23 to the accounts respectively.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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 2002.

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 the existing shareholders.

INVESTMENT PROPERTY AND OTHER FIXED ASSETS

Details of the movements in investment property and other fixed assets during the year are set out in Notes 10 and 11 to the accounts respectively.

Particulars of the major property of the Group as at 31st December 2002 are set out on pages 47 and 66.

BANK LOANS

Particulars of bank loans as at 31st December 2002 are set out in Notes 19 and 20 to the accounts.

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 pages 4-5.

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year ended 31st December 2002.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year ended 31st December 2002 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

In accordance with bye-law 99 of the Company's bye-laws, Messrs. Fung Choi On will retire at the forthcoming general meeting and, being eligible, offer himself for re-election.

None of the Directors has a 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 2002, 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 under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") 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%

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 2002.

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 Directors during the year ended 31st December 2002 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	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
				6,500,000		6,500,000

Save as disclosed above, at no time during the year ended 31st December 2002 was the Company or any of its holding companies or subsidiaries a party to any arrangement to enable any of the 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 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.

Participants include any employee and senior executive or Directors 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 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 employee 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

Details of the scheme are also set out in Note 23 to the accounts.

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 any of the 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 2002, 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 2002.

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 2002, 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 26% of the Group's total turnover. In addition, for the year ended 31st December 2002 the five largest suppliers of the Group accounted for approximately 79% of the Group's total purchases while the largest supplier of the Group accounted for approximately 32% 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 owns more than 5% of the Company's share capital) had an interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

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

- (1) 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).

MVI indirectly owns 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 Equipments purchased are necessary for the development, manufacturing and testing of electronic materials and components of the JV Co.. Prior to the purchase of the Equipments, the capacity of masks and probe-cards in the JV Co. are almost fully utilized. Based on the Group's forecast, the demand of electronic materials and components will continue to grow steadily in the coming years. In order to save the time required and reduce the risk of failure in the stage of designing masks and probe-cards, the Group considered that it is appropriate to purchase fully tested masks and probe-cards from MVI instead of developing and designing the same by the JV Co. itself. After the purchase of the Equipments, the Group expects that the JV Co. will be able to enhance its product portfolio and to meet the growing demand for innovative and advanced electronic products.

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. As such, the Directors (including the independent non-executive directors) considered that the agreement was negotiated on an arm's length basis and on normal commercial terms, and was in the interest of the Company.

- (2) In addition, the JV Co. renewed its operating lease rental with MVI following the expiry of the lease agreement on 9th January 2002. The new term is for a period of 2 years from 9th January 2002 to 8th January 2004. 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.

For the year ended 31st December 2002, rental and management fees of approximately HK\$762,000 (2001: HK\$1,688,000) and HK\$460,000 (2001: HK\$1,483,000) respectively were payable to MVI.

- (3) Pursuant to the Foundry Agreement entered into by the JV Co. with MVI in 2001, manufacturing service fee of approximately HK\$12,586,000 (2001: HK\$8,177,000) were payable to MVI. The transaction constituted on-going connected transactions under the Listing Rules. In this respect, a waiver, was granted by The Stock Exchange of Hong Kong Limited 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 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 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 2002, 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.

- (4) Rental income of approximately HK\$461,000 and HK\$1,203,000 (2001: HK\$502,000 and HK\$1,212,000) 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.
- (5) Product-testing fee of approximately HK\$695,000 (2001: HK\$204,000) and information system service fee of approximately HK\$410,000 (2001: HK\$277,000) were payable by the JV Co. to MVI. 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. The Directors consider that these transactions were conducted under normal commercial terms.

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 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 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 Society of Accountants.

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 two independent non-executive directors. Two meetings were held during the year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Arthur Andersen & Co in July 2002) who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Seto Yee Woon, John
Chairman

Hong Kong, 8th April 2003