SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

Announcement of 2005 final results

FINANCIAL HIGHLIGHTS

- Sales grew by 28% to US$394 million attributable to strong unit shipment growth of the Group's new display ICs products
- Net profit grew by 32% to US$76.3 million
- Earnings per share was 3.12 US cents, or 24.3 HK cents, an increase of 19%
- The Board proposed a final dividend per share of 15 HK cents (1.93 US cents)
- Total dividends per share of the year totaled 19 HK cents (2.44 US cents)

FINAL RESULTS

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures for the corresponding period of last year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	**2005** ***US$'000***	**Restated** **2004** *US$'000*
Sales	5	**394,089**	308,238
Cost of sales		**(274,538)**	(211,651)
Gross profit		**119,551**	96,587
Other gain — net	6	**4,485**	461
Research and development costs		**(17,523)**	(11,809)
Selling and distribution expenses		**(2,255)**	(2,858)
Administrative expenses		**(11,789)**	(11,501)
Other operating expenses		**(235)**	(108)
Operating profit		**92,234**	70,772
Finance costs	8	**(2)**	(2)
Share of result of an associated company		**(216)**	(194)
Profit before taxation		**92,016**	70,576
Taxation	9	**(15,762)**	(12,641)
Profit attributable to shareholders	10	**76,254**	57,935
Dividends	11	**61,452**	63,087
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in US cents per share)	12		
Basic		**3.12**	2.63
Diluted		**3.08**	2.50

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	**2005** *US$'000*	**Restated 2004** *US$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**11,077**	9,548
Investment in an associated company		**903**	1,119
Available-for-sale financial assets		**—**	—
Fixed bank deposit		**5,000**	11,000
		16,980	21,667
Current assets			
Inventories		**36,212**	42,458
Trade and other receivables	13	**59,219**	58,166
Other financial assets		**1,250**	—
Pledged bank deposits		**130**	2,130
Short-term fixed deposits		**37,000**	—
Cash and cash equivalents		**119,479**	125,715
		253,290	228,469
Total assets		**270,270**	250,136
EQUITY			
Capital and reserves			
Share capital		**32,360**	32,279
Own shares held		**(605)**	(1,338)
Reserves			
Proposed final dividend		**48,540**	38,655
Others		**126,718**	107,184
		207,013	176,780
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**29**	20
Deferred tax liabilities		**574**	29
		603	49
Current liabilities			
Trade and other payables	14	**56,357**	63,399
Tax payable		**6,287**	9,900
Obligations under finance leases		**10**	8
		62,654	73,307
Total liabilities		**63,257**	73,356
Total equity and liabilities		**270,270**	250,136
Net current assets		**190,636**	155,162
Total assets less current liabilities		**207,616**	176,829

Notes to the Financial Statements

1 General information

Solomon Systech (International) Limited (the "Company") and its subsidiaries (together "the Group") are fabless semiconductor companies specializing in the design, development and sales of proprietary integrated circuits.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted Company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman lslands (the "Cayman Companies Law"). The address of its registered office is P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands and the address of its principal office in Hong Kong is 6/F., No.3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The Company has been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 April 2004.

These consolidated financial statements are presented in US dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 13 March 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

In 2005, the Group adopted the new/revised standards and interpretation of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements

HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation - Special Purpose Entities
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 28, 33, 36, 38 and HKAS-Ints 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 resulted in differences in the presentation of share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 27, 28, 33 and HKAS-Ints 15 and 21 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of shares and share options to employees and directors did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group expenses the cost of shares and share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods (Note 2.14).

The adoption of HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. There is no material impact on the financial statements for the year 2005 as both the goodwill and intangible assets of the Group have been fully amortised as at 31 December 2004.

Effect of adopting new/revised HKAS, HKAS-Int and HKFRS

The adoption of HKAS-Int 12 has resulted in a change in the accounting policy for the consolidation of a special purpose entity ("SPE"). A SPE should be consolidated when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKAS-Int 15 - does not require the recognition of incentives for leases beginning before 1 January 2005; and

— HKFRS 2 - only retrospective applicable for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005. As a transitional provision, the cost of shares or options granted after 7 November 2002 and have not vested on 1 January 2005 was expensed retrospectively in the consolidated profit and loss account of the respective years.

The following are the impact upon the adoption of HKFRS 2 Share-based Payments:

	2005 ***US$'000***	2004 *US$'000*
Increase in equity compensation reserve	**3,135**	1,616
Increase in share premium	**1,624**	—
Decrease in retained earnings	**4,759**	1,616

	2005 ***US$'000***	2004 *US$'000*
Increase in research and development costs	**1,627**	210
Increase in selling and distribution expenses	**720**	17
Increase in administrative expenses	**796**	1,006
Decrease in basic earnings per share (US cents)	**0.13**	0.05
Decrease in diluted earnings per share (US cents)	**0.13**	0.05

The following are the impact upon adoption of HKAS-Int 12 Consolidation — Special Purpose Entities:

	2005 ***US$'000***	2004 *US$'000*
Increase in cash and cash equivalents	**1,186**	447
Increase in accrued charges and other payables	**—**	246
Increase in own shares held	**605**	1,338
Increase in retained earnings	**1,791**	1,539

	2005	2004
	US$'000	*US$'000*
Increase in other gain-net	**17**	1
Increase in basic earnings per share (US cents)	**0.08**	0.20
(Decrease)/Increase in diluted earnings per share (US cents)	**(0.04)**	0.07

2.2 **Consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account (see Note 2.6).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Associated company*

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for by the equity method of accounting and is initially recognized at cost.

The Group's share of its associated company post-acquisition profits or losses is recognized in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the

carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of an associated company are accounted for by the Company on the basis of dividend received and receivable.

(c) *Special purpose entity*

A special purpose entity is an entity over which the Group has the power to govern the financial and operating policies. A special purpose entity is fully consolidated from the date on which control is transferred to the Group and it is deconsolidated from the date that control ceases.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 **Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	20% or over the unexpired lease period, whichever is shorter
Furniture, fixtures and office equipment	33.33%
Machinery and laboratory equipment	12.50% to 33.33%
Motor vehicles	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

2.6 **Intangible assets**

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associated company at the date

of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) *Patents and intellectual property*

Patents and intellectual property are shown at historical cost. Patents and intellectual property have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of five years.

2.7 Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Investments

Prior to 1 January 2005, investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Subsequent to the adoption of the HKAS39 from 1 January 2005:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of unlisted securities are determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account — is removed from equity and recognized in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials and subcontracting charges. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deductions, net of tax, from the proceeds.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(a) *Pension obligations*

The Group participates in several defined contribution plans, under which the Group pays fixed contributions into separate entities.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) *Equity compensation*

The Group operates several equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares or share options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the Group revises its estimates of the number of shares or share options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Under the Share Award Plan, directors and employees of the Group are entitled to receive shares in the Company. The shares, held under trust by HSBC International Trustee Limited for the benefit of the directors and employees, have been created by capitalising the Company's retained earnings to pay up consideration at nominal value in full prior to the listing of the Company in the Stock Exchange.

The Company also adopted the Share Option Scheme under which options may be granted to subscribe for the Company's shares.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) *Profit-sharing and bonus plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 **Provisions**

Provisions for restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 **Revenue recognition**

Revenue comprises the fair value for the sale of products net of discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) *Sales of products*

Sales of products are recognized on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment/delivery.

(b) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost — recovery basis as conditions warrant.

2.17 **Leases (as the lessee)**

(a) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

(b) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognized in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.18 **Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit and loss account over the period necessary to match them with the costs that they are intended to compensate.

2.19 **Research and development**

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred.

Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) *Market risk*

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Revenue and majority of the cost of sales are US dollar basis. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(b) *Credit risk*

Customers of the Group are mainly well-known distributors with sound financial background. In addition, the Group has policies in place to ensure that sales of products are made to customers within appropriate credit history or limits.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) *Cash flow and fair value interest rate risk*

The Group has no significant interest-bearing assets or liabilities except for bank balances. In view that majority of these bank balances are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

3.2 Fair value estimation

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) **Income taxes**

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) **Equity compensation**

In determining the total expenses for the Group's equity compensation plans, the Group estimates the number of options/shares that are expected to become exercisable/vested at the date of grant. At each balance sheet date before the options/shares that are become fully exercisable/vested, the Group will revise the total expenses where the number of options/shares that are expected to become exercisable/vested are different to previously estimated.

(c) **Property, plant and equipment and depreciation**

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5 **Segment information — Group**

(a) **Primary reporting format — business segment**

At 31 December 2005, the Group is principally engaged in the research, design, development and distribution of integrated circuits ("IC").

The Group has been operating in one single business segment, i.e. the research, design, development and distribution of ICs. Sales amounted to US$394,089,000 and US$308,238,000 for the years ended 31 December 2005 and 2004 respectively.

(b) **Secondary reporting format — geographical segments**

The Group mainly operates in Hong Kong SAR ("Hong Kong"). The Group's sales are mainly made to customers in places/ countries within Taiwan, Hong Kong and Japan.

(i) *Sales*

	2005	**2004**
	US$'000	*US$'000*
Taiwan	**158,324**	121,791
Hong Kong	**125,195**	97,579
Japan	**85,887**	62,873
Korea	**21,467**	11,425
Singapore	**1,046**	8,690
Mainland China ("China")	**511**	4,123
United States of America ("U.S.A.")	**94**	400
Others	**1,565**	1,357
	394,089	308,238

Sales are allocated based on the places/countries in which customers are located.

(ii) *Total assets*

		Restated
	2005	**2004**
	US$'000	*US$'000*
Hong Kong	**230,519**	208,633
Taiwan	**32,723**	35,080
Others	**7,028**	6,423
	270,270	250,136

Total assets are allocated based on where the assets are located. Others comprises China, Japan, Singapore and U.S.A.

(iii) *Capital expenditures*

	2005	**2004**
	US$'000	*US$'000*
Hong Kong	**5,378**	2,965
China	**267**	1,456
Taiwan	**341**	3,312
Others	**219**	262
	6,205	7,995

Capital expenditures are allocated based on where the assets are located.

6 Other gain — net — Group

		Restated
	2005	**2004**
	US$'000	*US$'000*
Interest income	**4,485**	461

7 **Expenses by nature — Group**

Expenses included in cost of sales, research and development costs, selling and distribution expenses and administrative expenses are analysed as follows:

	2005	**Restated 2004**
	US$'000	*US$'000*
Loss on disposal of property, plant and equipment	**12**	—
Auditors' remuneration	**123**	108
Depreciation of owned property, plant and equipment	**4,660**	3,932
Depreciation of leased property, plant and equipment	**9**	5
Operating leases for land and buildings	**778**	490
Amortisation of patents and intellectual property included in research and development costs	**—**	675
Amortisation of goodwill included in administrative expenses	**—**	291
Employee benefit expenses	**16,412**	12,042
Net exchange losses	**127**	156
(Write-back of)/Provision for doubtful debts	**(1,782)**	1,174
(Write-back of)/Provision for obsolete or slow moving inventories	**(65)**	4,232

8 **Finance costs — Group**

	2005	**2004**
	US$'000	US$'000
Interest element of finance leases	**2**	2

9 **Taxation — Group**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. No provision for income tax has been provided for subsidiaries operating outside Hong Kong as they did not generate any assessable profits in the respective jurisdictions during the year (2004: Nil).

	2005	**2004**
	US$'000	US$'000
Current taxation:		
Hong Kong profits tax	**15,869**	13,385
Overseas profits tax	**(17)**	—
Over provisions in prior years	**(635)**	(186)
Deferred taxation	**545**	(558)
Taxation charge	**15,762**	12,641

The tax on the Group's profit before tax differs from theoretical amount that would arise using the taxation rate of Hong Kong, the Group's principal place of operation, as follows:

	2005 *US$'000*	Restated 2004 *US$'000*
Profit before tax	**92,016**	70,576
Tax calculated at a taxation rate of 17.5% (2004: 17.5%)	**16,103**	12,351
Income not subject to tax	**(1,779)**	(89)
Expenses not deductible for taxation purposes	**1,773**	287
Tax losses not recognised	**300**	278
Over provisions in prior years	**(635)**	(186)
Taxation expense	**15,762**	12,641

10 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to extent of profit of US$67,675,000 (2004 Restated: US$50,541,000).

11 Dividends

		2005 *US$'000*	Restated 2004 *US$'000*
(a)	Interim dividend declared and paid by the Company during the year:		
	2004 first interim, attributable to the result of 2003, paid, of HK$0.066 (approximately 0.85 US cents) per ordinary share	—	16,039
	2004 second interim, paid, of HK$0.026 (approximately 0.34 US cents) per ordinary share	—	8,393
	2005 interim, paid, of HK$0.04 (approximately 0.51 US cents) per ordinary share *(Note (i))*	12,912	—
	Less: Company's share of dividends paid on the shares held by a special purpose entity of the Group	(242)	(424)
		12,670	24,008
(b)	Final dividend attributed to the year:		
	2004 final dividend, paid, of HK$0.12 (approximately 1.54 US cents) per ordinary share *(Note (ii))*		38,655
	2005 final dividend, proposed, of HK$0.15 (approximately 1.93 US cents) per ordinary share *(Note (iii))*	48,540	
	Less: Company's share of dividends paid on the shares held by a special purpose entity of the Group	—	(749)
		48,540	37,906
	Dividend attributed to the year	61,452	63,087

Notes:

(i) On 7 September 2005, the Directors declared an interim dividend of HK$0.04 (approximately 0.51 US cents) per ordinary share . The interim dividend was paid on 7 October 2005.

(ii) On 9 March 2005, the Directors proposed a final dividend of HK$0.12 (approximately 1.54 US cents) per ordinary share. The final dividend was paid on 22 April 2005.

(iii) At a meeting held on 13 March 2006, the Directors proposed a final dividend of HK$0.15 (approximately 1.93 US cents) per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

12 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US$76,254,000 (2004 restated: US$57,935,000).

The basic earnings per share is based on the weighted average of 2,445,135,773 (2004 restated: 2,204,501,037) ordinary shares in issue excluding own shares held during the year.

The diluted earnings per share information is based on 2,473,217,108 (2004 restated: 2,320,846,751) ordinary shares which is the weighted average number of shares in issue excluding unallocated own shares held during the year.

13 Trade and other receivables — Group

	2005	**2004**
	US$'000	*US$'000*
Trade receivables	**56,146**	58,676
Less: provision for impairment of receivables	**(33)**	(1,814)
Trade receivables - net	**56,113**	56,862
Prepayments and other receivables	**3,106**	1,304
	59,219	58,166

The Group's sales to corporate customers are entered into on credit terms of 30 days. The ageing analysis of trade and bills receivables is as follows:

	2005	**2004**
	US$'000	*US$'000*
0 - 30 days	**53,997**	56,772
31 - 60 days	**1,843**	—
61 - 90 days	**273**	53
91 - 120 days	**—**	—
121 -365 days	**—**	37
	56,113	56,862

14 Trade and other payables — Group

	2005	**2004**
	US$'000	*US$'000*
Trade payables	**43,408**	54,760
Accrued expenses	**12,949**	8,639
	56,357	63,399

At 31 December 2005, the ageing analysis of trade payables is as follows:

	2005	2004
	US$'000	*US$'000*
0 - 30 days	**42,650**	53,618
31 - 60 days	**728**	624
61 - 90 days	**30**	375
91 - 120 days	**—**	36
121- 365 days	**—**	107
	43,408	54,760

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2005, the Group delivered healthy revenue growth of 28% and net profit growth of 32%. Even though the industry experienced fairly severe pricing pressure, the Group maintained a gross margin of 30%. During the year, new players joined the competition but the Group continued to gain market share. Unit shipment of the Group increased by 68% while the global mobile phone market grew by 14%.

The Group started a number of initiatives to further secure its wafers supply and to reduce costs. The former related to qualifying more foundries (or wafers sub contractors) so as to ensure stability of wafers supply. The latter involved a proprietary manufacturing process developed in-house that could be applied universally to different foundries. The process necessitates some re-engineering at IC design level and will ultimately save time and cost — leading to more competitive edges for the Group's display ICs. In addition, the Group continued to use advanced process technology, do die-shrink, improve yield rate and reduce manufacturing steps in an attempt to lower the costs, thereby offsetting the price erosion and maintaining a comfortable margin.

As regards the Group's business and customers, there were also noteworthy achievements. For instance, the Group had a very solid and strong business with Motorola, especially the mobile TFT ("m-TFT") display ICs for their best selling mobile phone RAZR V3 Series. On the OLED area, the Group obtained new customers like Sony and Creative for their MP3 players. Regarding large display such as notebook computers and PC monitors, Quanta Display Inc. became the Group's first significant customer. Further, the Group signed a marketing agreement with Kopin Corporation, a Boston-based technology company, to sell the plug-and-play binocular display modules. Lastly at the module maker level, the Group won 145 design-wins for the year, a 12% increase year-on-year. The Group believes its global market share in mobile display ICs exceeds 20%.

"We make more things happen" was a good description of the Group's achievements in 2005. To begin with, the highly regarded "ARC Awards" recognized the Group's first annual report as the best in Hong Kong. Next, the "Employer of the Year Award" as well as the "Special Mention" from *IR Magazine* clearly recognized the Group's effort in caring about employees and investors. What is more, the Group received some other awards granted by the Hong Kong Council of Social Service, Red Herring, Deloitte Touche Tohmatsu, Fabless Semiconductor Association, Hong Kong Electronic Industries Association and EDN China.

For the whole of 2005, the Group's trading volume further increased to an average of 13.6 million shares a day, a growth of 27% over the previous year. Just about one year after listing, the Group was included in the MSCI Hong Kong and Small Cap Indices for its shares liquidity, free float, industry and country representation. In October 2005, there were 202 million shares disposed of by an original venture capital shareholder. With the effect of such activity, the Group's free float was boosted to more than 80%.

Finally, the Group is very pleased with its performance of 2005 and the support from its customers, suppliers, employees and shareholders.

Financial Review

Sales and profit

The Group increased its sales by 28% in 2005 to US$394 million. The growth was mainly a result of m-TFT display ICs ramp-up and very strong unit shipment of OLED display ICs. Gross profit also grew to US$120 million, an increase of 24% year-on-year. As the Group exercised aggressive cost control, the gross profit margin for 2005 was maintained at 30.3%, compared to 31.3% in 2004.

Net profit for the year was US$76.3 million, representing an increase of 32% over the previous year. Despite the Group considerably expanded its staff force in the areas of IC design and engineering, it was able to maintain net profit margin at 19.3%, compared to 18.8% in 2004.

Liquidity and financial resources

Net cash flow from operations during the year was US$98 million. The net cash of the Group amounted to US$161 million at year end, compared to US$137 million as at 31 December 2004. The change in cash position was mainly a result of (1) dividends paid of US$52 million and (2) capital spending of US$6 million. Regarding the cash reserves, the Group will continue to invest in products development, to secure production capacity, to undertake some corporate venture investments and to keep a certain level of cash for general corporate purposes. As at 31 December 2005, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts.

All of the Group's account receivables and most of its payables are quoted in US dollars. The Group closely monitors foreign exchange rates and does its best to obtain favorable exchange rates for conversion of US dollars into other currencies for the payment of local operating expenses. During the review period, the Group did not use any derivative instruments to hedge its foreign currency exposure as it considered the exposure was insignificant.

In light of the Group's record net profit made and relatively rich cash position, the Board of the Group resolved to declare a final dividend of 15 HK cents per share to shareholders whose names appear on the Register of Members of the Group on 20 April 2006. In summary, the full year dividends per share of 19 HK cents represent a payout ratio of approximately 80% of earnings, or a yield of 7.3% based on the average daily closing price of HK$2.60 for 2005.

Capital expenditure and contingent liabilities

In 2005, the Group spent a total of US$6 million in capital expenditure, comprising computer hardware and software, intellectual property ("IP") licenses, research and development tools, critical packaging and testing equipment. Currently, all research and development tools are located in the Group's offices while all production equipment is consigned to sub-contractors. As at 31 December 2005, the Group had no material capital commitments or contingent liabilities.

Business Review

Products shipment

At the beginning of 2005, both the semiconductor and mobile phone markets were seasonally weak. As a result, the utilization rate at the foundries was relatively low, making the wafers supply more readily available. Going into the second half, tightness of wafers supply emerged and it created pressure on the Group's gross margin.

For 2005, the book to bill ratio stood at 0.93. In total, the Group shipped 263 million units of display ICs, a growth of 68% year-on-year. The driver for the spectacular growth was the popularity of the Group's m-TFT and OLED display ICs. The blended average selling price (ASP) of the Group's products was US$1.50 for 2005, down from US$1.96 for 2004. The decrease was mainly due to the product mix and the pricing pressure exerted at the end-customer level.

As regards unit shipment, the Group's monochrome STN display ICs slightly declined by 3.8% in 2005 due to migration from black-and-white display to color display in the industry. Color STN display ICs, however, grew by 61.6%. The growth was attributable to a number of factors, including more new products launched, dedicated customer support, right pricing and time-to-market. Another encouraging result was the rapid adoption of the Group's m-TFT display ICs, which achieved a 372% growth and were commercially used in top brand mobile phones such as RAZR V3. Boosted by the 3-digit growth of global MP3 players market, the shipment of the Group's OLED display ICs was very promising with a growth rate of 187%. After working in close collaboration with Quanta Display Inc., the Group started mass production in late 2005 for its large display driver ICs.

Display ICs Shipped (million units)	**2005**	**2004**	**Growth (%)**
Monochrome STN	45.3	47.1	-3.8
Color STN	142.5	88.2	61.6
m-TFT	33.5	7.1	371.8
OLED	40.5	14.1	187.2
TFT	0.3	0.0	NA
Miscellaneous	0.9	0.5	80.0
Total	**263.0**	**157.0**	**67.5**

Note: TFT denotes large display driver ICs. Miscellaneous includes graphics controller, display ICs for PDA and other applications.

New products and customers

The Group had 27 new products altogether go to production in 2005, an increase of roughly 70% against the previous year. Most of them were mobile phone related display ICs, supplied directly to module makers and eventually used by global mobile phone brand names and other portable applications. To promote its latest products and technologies, the Group participated in a number of exhibitions and conferences worldwide in 2005.

Exhibition / conference	Location	Date
The 10th Annual International IC - China Conference & Exhibition	Shenzhen / Shanghai	4-5 April / 12-14 April
OLEDs Asia 2005, Intertech Conferences	Seoul	18-20 April
SID 2005	Boston	24-26 May
International Symposium on Consumer Electronics 2005	Macau	14-16 June
The 5th International Meeting on Information Display and Exhibition	Seoul	20-23 July
The 3rd China International IC Industry Exhibition	Beijing	24-26 August
electronicAsia 2005	Hong Kong	13-16 October

In recognition of the Group's product quality and customer services, the Group received 4 awards from its customers in 2005.

Backed by its extensive sales network and all-round customer services, the Group further enlarged its customer base. For instance, the number of module makers whose business with the Group worth more than US$10 million increased from 5 in 2004 to 8 in 2005. At present, the Group serves more than 70 module makers globally.

The Group believes that all major global mobile phone brand names are using or have started to use the Group's display ICs. In the non-mobile phone area, the Group also introduced a number of key products that won industry awards. For instance, the Group's microdisplay controller IC (part number SSD1502) won the Grand Award and Gold Award in the annual HKEIA Award for Outstanding Innovation and Technology Products. Additionally, the Group produced a high performance OLED display IC (part number SSD1339) that also received the EDN China Innovation Award 2005.

Research and development

Research and development capability is one of the Group's core competences. The Group's management team regularly keeps track of the Group's research output and its customers' new requirements in connection with product features or specifications. The Group's ultimate research effort is to make the ICs that exceed customers' expectations and deliver performance unmatched even by its closest rivals.

In the past twelve months, the research and development costs amounted to roughly US$18 million. The number of employees in research and development increased to more than 190 as at 31 December 2005. The headcount increase is part of the Group's focused business expansions as the Group captures more business opportunity from customers and has to stay ahead of competition with its innovative products for tomorrow's applications.

The Group's existing and future products are supported by 3 technology centers, namely Hong Kong, Shenzhen and Singapore. The research and development team in Hong Kong provides a full range of product developments, while the Shenzhen operation takes on special projects and the Singapore operation focuses on multimedia ICs and IP development.

In terms of wafers technology under development, the Group's products employ a range of fine technologies from 0.13μm to 0.6μm, depending on the cost-performance measure along with specific customer's requirements. Lastly, the Group filed 3 patents and published 5 technical articles in 2005.

Prospects

Display Panel Area

Mobile display

The Group has a firm grip on the mobile display area globally. Its market share and position are meaningful to the players in the whole value chain of mobile display area. Going forward, the Group will carry on certain strategic directions in respect of different display technologies.

In 2006, the Group expects the unit shipment growth of monochrome STN display will be flat. Color STN display ICs for the coming year will experience a growth comparable to that of the market, which is forecast to be moderate double-digit. In respect of m-TFT display ICs, the Group's focus will be on 3-4 top brand name customers. As such, the growth of m-TFT display ICs is expected to be outperforming the market. With reference to OLED display ICs, the most attention-grabbing application will be the main display of mobile phone using OLED display. Given its 40% plus global market share in OLED display IC area, the Group will definitely benefit from the high growth of OLED-driven consumer electronic products such as mobile phones, MP3, MP4, mini-disc players and other large volume applications.

Large display

There were roughly 320,000 units of gate driver ICs shipped in 2005. In 2006, the Group aims to broaden its product offerings, and will ship both gate and source driver ICs for notebook computers, PC monitors as well as LCD TVs. Such driver ICs will initially accommodate display size of up to 32 inches. In fulfilling customer needs, the Group will ship more driver ICs for large display.

Right now, the total market size for large display driver ICs is more than US$2.5 billion a year. This is a potentially large enough market for the Group to line up more resources with the purpose of gaining market share and achieving continuous revenue growth. Apart from

Quanta Display Inc., the Group plans to acquire a few more customers in the region. As mentioned previously, the Group's dual intentions with regard to the large display area are (1) to bring in long-term revenue growth and (2) to make a foray into high-value ICs associated with LCD TV.

New display

This business area has yet to produce significant revenue to the Group. However, as an innovative technology company, the Group not only devotes R&D efforts to products with immediate market demand, but also develops future products that can create high volume demand. To date, there are certain products whose potential are on the rise, namely microdisplay ICs, flexible and bistable driver controller ICs.

The Group expects there will be various applications using microdisplay ICs. Such applications can be found in areas of mobile entertainment, cellular accessories and 3-D gaming, thanks to the large number of portable multimedia players and the emergence of mobile TV phones. In 2005, the Group entered into a co-marketing and sales agreement for the China market with Kopin Corporation to promote "Video On-the-Go" technology. As for flexible or bistable displays, they may be used in ultra-thin portable or attachable devices, label-tag empowered by RF connectivity and others. The management believes in the potentially surging demand for new display applications, and will keep researching and expanding this business so as to stay ahead of competitors.

Display System Area

Display system area means those ICs that are either complementing display panel ICs or enriching the image, graphics or functionality of a display. Currently, display system ICs consist of graphics controller, image processor, mobile phone audio chipset, multi-format audio decoder, multimedia processor, timing controller and interface peripheral chipset.

The Group intends to speed up its products development with the right strategic alliance, business cooperation, product acquisition or licensing of core IP rights. During 2005, the Group licensed IP rights from Qualcomm Inc. on MDDI interface, which is a rapidly accepted display interface for CDMA platforms, and from a multinational technology company on processor and the associated software platform. With the development of this business, the Group will be more able to deliver total display IC solutions.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES

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.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE MODEL CODE

Throughout the year, the Group complied with the applicable Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Code"), and there was no deviation from the Code provisions except that the Article 112 of the Articles of Association of the Company provides that the Managing Director shall not be subject to rotation at the annual general meeting.

The Group has its own written guidelines on securities transactions by Directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all of them were in compliance with such guidelines during the year ended 31 December 2005.

AUDIT COMMITTEE

The Audit Committee comprises one non-executive director and two independent non-executive directors. The Chairman of the Audit Committee is Mr. SUN, Patrick, an independent non-executive director. Mr. Sun is an experienced investment banker with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules for the purpose of such appointment.

The meetings of the Audit Committee are held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meetings may also be held by the Committee from time to time to discuss special projects or other issues which the Committee considers necessary. The external auditors of the Group may request a meeting if they consider that it is necessary. Throughout the year, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group.

FINAL DIVIDEND

The directors proposed a final dividend of 15 HK cents per share to shareholders whose names appear on the Register of Shareholders of the Company on 20 April 2006. The final dividend will be paid on 12 May 2006.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from 21 April 2006 to 27 April 2006 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Investor Services Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:00 pm on 20 April 2006.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") will be published on the Stock Exchange's website and the Group's website www.solomon-systech.com in due course.

On behalf of the Board
Solomon Systech (International) Limited
LEUNG Kwong Wai
Managing Director

Hong Kong, 13 March 2006

As at the date of this announcement, the Executive Directors of the Company are Leung Kwong Wai, Huang Hsing Hua, Lo Wai Ming and Lai Woon Ching. Non-Executive Directors are Lam Pak Lee, Chang Ching Yi, Steven and Wong Yuet Leung, Frankie. Independent Non-Executive Directors are Choy Kwok Hung, Patrick, Sun Patrick and Kao Kuen, Charles.

Please also refer to the published version of this announcement in South China Morning Post.