



**SOLOMON
SYSTECH**
晶門科技

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

2005 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover grew by 69% as a result of gain in market share and timely introduction of new products
- Net profit rose to US\$36.3 million, an increase of 62% year-on-year
- Earnings per share was 1.50 US cents, or 11.7 HK cents
- The Board resolved to declare an interim dividend per share of 4.0 HK cents, equivalent to 0.51 US cents

INTERIM RESULTS

The Directors are pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 together with the comparative figures for the corresponding period of last year as follows.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Unaudited	
		Six months ended	
		30 June	
	<i>Note</i>	2005	Restated
		<i>US\$'000</i>	<i>US\$'000</i>
Turnover	5	185,713	110,125
Cost of sales		<u>(127,782)</u>	<u>(70,429)</u>
Gross profit		57,931	39,696
Other revenues	5	1,280	120
Research and development costs		(5,563)	(4,615)
Selling and distribution expenses		(1,588)	(688)
Administrative expenses		(7,168)	(7,243)
Other operating (expenses)/income		<u>(27)</u>	<u>211</u>
Operating profit	7	44,865	27,481
Finance costs		(1)	(1)
Share of results of an associated company		<u>(74)</u>	<u>(22)</u>
Profit before taxation		44,790	27,458
Taxation	8	<u>(8,486)</u>	<u>(4,986)</u>
Profit attributable to shareholders		<u>36,304</u>	<u>22,472</u>
Dividends	9	<u>12,912</u>	<u>24,432</u>
Earnings per share (US cents)	10		
Basic		<u>1.50</u>	<u>1.08</u>
Diluted		<u>1.50</u>	<u>1.08</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

	<i>Note</i>	Unaudited 30 June 2005 US\$'000	Restated 31 December 2004 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		9,066	9,548
Other financial assets		211	—
Investment in an associated company		1,044	1,119
Fixed bank deposit		<u>6,000</u>	<u>11,000</u>
		16,321	21,667
Current assets			
Inventories		27,779	42,458
Accounts and bills receivables		38,681	56,862
Prepayments, deposit and other receivables		2,451	1,304
Other financial assets		3,000	—
Pledged bank deposits		130	2,130
Bank balances and cash		<u>149,884</u>	<u>125,715</u>
		221,925	228,469
Total assets		<u>238,246</u>	<u>250,136</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		32,297	32,279
Own shares held		(624)	(1,338)
Reserves			
Proposed dividend	9	12,912	38,655
Others		<u>131,704</u>	<u>107,184</u>
		176,289	176,780

	<i>Note</i>	Unaudited 30 June 2005 US\$'000	Restated 31 December 2004 US\$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		25	20
Deferred taxation		<u>398</u>	<u>29</u>
		<u>423</u>	<u>49</u>
Current liabilities			
Accounts payable		36,334	54,760
Accrued charges and other payables		8,338	8,639
Tax payable		16,854	9,900
Obligations under finance leases		<u>8</u>	<u>8</u>
		<u>61,534</u>	<u>73,307</u>
Total liabilities		<u>61,957</u>	<u>73,356</u>
Total equity and liabilities		<u>238,246</u>	<u>250,136</u>
Net current assets		<u>160,391</u>	<u>155,162</u>
Total assets less current liabilities		<u>176,712</u>	<u>176,829</u>

Notes to the condensed consolidated interim accounts

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts (“Interim Accounts”) are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

These Interim Accounts should be read in conjunction with the 2004 annual report.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the annual report for the year ended 31 December 2004 except the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

These Interim Accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information (July 2005). The HKFRS and their interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information and have not been applied in this Interim Accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Changes in accounting policies

(a) *Effect of adopting new/revised HKAS, HKAS-Int and HKFRS*

In 2005, the Group adopted the new/revised standards of HKAS, HKAS-Int and 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 16	Property, Plant and Equipment
HKAS 17	Leases
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	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
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 24, 27, 28, 33 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 minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 17, 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 entity 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 or options did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of shares or options in the income statement. As a transitional provision, the cost of shares or options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. There was no material impact on the Interim Accounts as both the goodwill and intangible assets of the Group have been fully amortised as at 31 December 2004.

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.

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

	30 June 2005	31 December 2004
	<i>US\$'000</i>	<i>US\$'000</i>
Increase in equity compensation reserve	1,033	1,616
Increase in share premium	1,394	—
Decrease in retained earnings	2,427	1,616

	For the year ended 31 December 2004 US\$ '000	For the six months ended 30 June 2005 US\$'000	30 June 2004 US\$'000
Increase in research and development costs	210	371	—
Increase in selling and distribution costs	17	47	—
Increase in administrative expenses	1,006	393	460
Decrease in basic earnings per share (US cents)	0.05	0.03	0.02
Decrease in diluted earnings per share (US cents)	0.05	0.03	0.02

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

	30 June 2005 US\$'000	31 December 2004 US\$'000
Increase in bank balance and cash	954	447
Increase in accrued charges and other payables	—	246
Increase in own share held	624	1,338
Increase in retained earnings	1,578	1,539

	For the year ended 31 December 2004 US\$'000	For the six months ended 30 June 2005 US\$'000	30 June 2004 US\$'000
Increase in other revenue	1	5	—
Increase in basic earnings per share (US cents)	0.20	0.05	0.09
Increase in diluted earnings per share (US cents)	0.20	0.05	0.09

(b) ***New Accounting Policies***

The accounting policies used for the Interim Accounts for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual accounts except for the following:

2.1 *Acquisition of subsidiaries and associates*

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 recognised directly in the profit and loss accounts.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

2.2 *Special purpose entities*

Special purpose entities are all entities over which the Group has the power to govern the financial and operating policies. Special purpose entities are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

2.3 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the accounts 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 accounts 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss accounts, 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; and
- (iii) all resulting exchange differences are recognised 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 recognised 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 ceases.

2.4 *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/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. 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.

2.5 *Impairment of assets*

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 recognised 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).

2.6 *Investments*

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates, as investment securities.

Investment securities

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. The impairment loss is written back to profit and loss account 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.

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, 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) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) 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 and held-to-maturity investments 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 income statement 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 income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value 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 income statement - is removed from equity and recognized in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.7 *Trade and other receivables*

Trade and other receivables are recognised 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 recognised in the income statement.

2.8 *Share-based compensation*

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares or options is recognised 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 options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to become exercisable/vested. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable and the number of shares that are vested. It recognises 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.

2.9 *Interest income*

Interest income is recognised 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.

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 Hong Kong 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*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers within appropriate credit 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 of 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 instruments traded in active markets (such as publicly traded available-for-sale securities) 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 appropriate quoted market price for financial liabilities is the current ask 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

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 judgement is required in determining the worldwide provision for income taxes. 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) *Share-based compensation*

In determining the total expenses for the Group's share-based 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 Revenues and turnover

The Group is principally engaged in the research, design, development and distribution of integrated circuits ("ICs"). Revenues recognised during the period are as follows:

	Unaudited Six months ended 30 June	
	2005 US\$'000	2004 US\$'000
Turnover		
Sale of goods	<u>185,713</u>	<u>110,125</u>
Other revenues		
Bank interest income	1,270	78
Other income	<u>10</u>	<u>42</u>
	<u>1,280</u>	<u>120</u>
Total revenues	<u>186,993</u>	<u>110,245</u>

6 Segmental analysis

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business Segment

The Group has been operating in one single business segment, i.e. the research, design, development and distribution of ICs.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical presence of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

(i) Segment revenue

	Unaudited Six months ended 30 June	
	2005 US\$'000	2004 US\$'000
Taiwan	71,186	43,434
Hong Kong SAR	58,920	35,422
Japan	45,224	15,391
Korea	8,559	4,670
Mainland China ("China")	363	1,865
United States of America	20	311
Others	1,441	9,032
	<u>185,713</u>	<u>110,125</u>

(ii) Capital expenditures by location of assets

	Unaudited Six months ended 30 June	
	2005 US\$'000	2004 US\$'000
Hong Kong SAR	1,159	1,794
China	30	1,269
Taiwan	105	2,887
Others	209	147
	<u>1,503</u>	<u>6,097</u>

(iii) Segment assets by location of assets

	Unaudited 30 June 2005 <i>US\$'000</i>	Audited 31 December 2004 <i>US\$'000</i>
Hong Kong SAR	205,838	208,633
Taiwan	25,678	35,080
Others	<u>6,730</u>	<u>6,423</u>
	<u>238,246</u>	<u>250,136</u>

Note: Others comprise China, Japan, Singapore and United States of America.

7 **Operating profit**

	Unaudited Six months ended 30 June	
	2005 <i>US\$'000</i>	2004 <i>US\$'000</i>
Operating profit is stated after crediting and charging the following:		
<i>Crediting</i>		
Gain on disposal of other investment	<u>—</u>	<u>180</u>
<i>Charging</i>		
Depreciation of owned fixed assets	1,982	1,678
Depreciation of leased fixed assets	3	2
Amortisation of patents and intellectual property included in research and development costs	—	450
Amortisation of goodwill included in administrative expenses	—	50
Staff costs		
Non-equity compensation portion	7,296	5,722
Equity compensation - shares	714	380
Equity compensation - options	<u>97</u>	<u>80</u>

8 Taxation

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited Six months ended 30 June	
	2005	2004
	<i>US\$'000</i>	<i>US\$'000</i>
Current taxation:		
Hong Kong profits tax	8,117	5,142
Deferred taxation	<u>369</u>	<u>(156)</u>
	<u>8,486</u>	<u>4,986</u>

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

9 Dividends

	Unaudited Six months ended 30 June	
	2005	2004
	<i>US\$'000</i>	<i>US\$'000</i>
(a) Dividend attributable to the previous year, approved and paid during the period:		
2004 final dividend, paid, of HK\$0.12 (approximately 1.54 US cents) per ordinary share (<i>Note (i)</i>)	38,655	—
Less: Company's share of dividends paid on the shares held by a special purpose entity of the Group	<u>(749)</u>	<u>—</u>
	<u>37,906</u>	<u>—</u>
(b) Dividend attributable to the year:		
2004 first interim, 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, declared, of HK\$0.04 (approximately 0.51 US cents) per ordinary share (<i>Note (ii)</i>)	<u>12,912</u>	<u>—</u>
	<u>12,912</u>	<u>24,432</u>
Less: Company's share of dividends paid on the shares held by a special purpose entity of the Group	<u>(250)</u>	<u>(424)</u>
	<u>12,662</u>	<u>24,008</u>

Notes:

- (i) 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.
- (ii) On 7 September 2005, the Directors declared an interim dividend of HK\$0.04 (approximately 0.51 US cents) per ordinary share which will be payable on 7 October 2005 to shareholders whose names appear on the register of members on 28 September 2005. The interim dividend is not reflected as a dividend payable in these condensed accounts but will be reflected as an appropriation of retained earnings for the year ended 31 December 2005.

10 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US\$36,304,000 (2004 restated: US\$22,472,000).

The basic earnings per share is based on the weighted average number of 2,426,719,229 (2004 restated: 2,088,179,728) ordinary shares in issue excluding own shares held during the period. The diluted earnings per share is based on 2,428,155,857 (2004 restated: 2,088,302,275) ordinary shares which is the weighted average number of ordinary shares in issue excluding own shares held during the period plus the weighted average number of 1,436,628 (2004 restated: 122,546) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

INTERIM DIVIDEND

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") have resolved to declare an interim dividend of 4.0 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 28 September 2005. The interim dividend will be paid on 7 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 September 2005 to 28 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 22 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

An Overview

For the six months ended 30 June 2005, the Group's turnover increased by 69% to US\$185.7 million, as compared with the same period in 2004. This growth was mainly due to the Group's success in gaining market share and the introduction of new products. During the

period, gross profit increased by 46% to US\$57.9 million. The Group's successful execution of cost reduction measures as well as ongoing price discussion with contract manufacturers more than offset the pricing pressure from customers, helped the Group's gross margin stay above 30%.

Net profit increased by 62% to US\$36.3 million. Owing to the Group's relentless effort to control operating expenses, the net profit margin was maintained at 20%. In short, the Group was able to deliver promising results.

In light of the Group's healthy financial position as well as its cash generative business model, the Board resolved to declare an interim dividend of 4.0 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 28 September 2005.

Financial Position and Liquidity

Net cash flow from operations during the period amounted to US\$59.7 million. The Group ended the period with US\$149.9 million of net cash (i.e. cash and cash equivalents less bank loans). Going forward, the Group intends to use the cash for its product development, investment in securing production capacity, corporate venture investing as well as general corporate purposes. As at 30 June 2005, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts with reputable financial institutions.

The main trade receivables and payables of the Group are in US dollars. As regards payments of operational costs in currencies other than US dollars or Hong Kong dollars, the Group will convert US dollars or Hong Kong dollars into the currency of payment at the prevailing foreign exchange rate. During the review period, the Group did not use any derivative instruments to hedge its foreign currency exposure as the Directors considered the Group's foreign currency exposure to be insignificant.

Capital Expenditure

Capital expenditure for the period was approximately US\$1.5 million (2004: US\$6.1 million), the majority of which was spent on the purchase of computer hardware and critical manufacturing equipment (in cooperative arrangement with contract manufacturers) to ensure the timely product delivery.

Capital Commitment and Contingent Liabilities

The Group had no material capital commitments or contingent liabilities as at 30 June 2005.

BUSINESS REVIEW

Book to Bill Ratio and Backlog

In the review period, the monthly book to bill ratio ranged from 0.5 to 1.3. The first half yearly ratio of 2005 was 0.9, attributable mainly to low ratios attained in the first quarter. In the second quarter, the book to bill ratio was 1.2. As at 30 June 2005, the Group registered an indicative backlog of orders in excess of 80 million units.

Product Shipment

The growth of units shipment in the first half was impressive, representing an increase of 66% year-on-year. This exceptional growth, primarily due to strong demand for high-end cellular phones and MP3 players, was predicted by the Group at the beginning of the year. The Group's ability to deliver strong results further attested to the benefits derived from its extensive customer network, comprehensive product offerings and timely introduction of new products to capture market demand. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2005	1H 2004	Growth (%)	2004
Monochrome STN	18.3	28.0	(35)	47.1
Color STN	61.4	28.8	113	88.2
m-TFT	12.2	0.1	NA	7.1
OLED	16.0	8.1	98	14.1
Miscellaneous	<u>0.4</u>	<u>0.1</u>	<u>300</u>	<u>0.5</u>
Total	<u>108.3</u>	<u>65.1</u>	<u>66</u>	<u>157.0</u>

Note: Miscellaneous includes graphic controller, PDA driver ICs, large display driver ICs (for 1H 2005 only) and others

Abbreviation: STN stands for super twisted nematic, TFT thin film transistor and OLED organic light emitting device

Total shipment of display ICs in the review period was 108.3 million units. According to IDC's forecast in April 2005, global shipments of cellular phones for 2005 are expected to exceed 760 million units (2004: 692 million units) with roughly 15% of this figure attributable to 2G phones, 75% to 2.5G and the remainder to 3G. The Group believes that its global market share in cellular phone display ICs is close to 20%.

Among the Group's products, monochrome STN display ICs shipments declined by 35% to 18.3 million units during the review period due to the fact that more and more cellular phones are using color displays. At the same time, color STN ("CSTN") display ICs recorded a strong momentum of growth. The shipment for the period reached 61.4 million units, an increase of 113% as compared to the same period in 2004. Mobile TFT ("m-TFT") display ICs emerged strongly with shipment of 12.2 million units, thanks to the increasing popularity of high-end cellular phones. OLED display ICs also showed phenomenal growth due to rapid adoption of OLED display in MP3 players. The shipment of OLED display ICs increased by 98% year-on-year to 16 million units. In the first half, the Group also started the pilot shipment of large display TFT driver ICs which, in the Group's opinion, will be one of the growth drivers from 2006 onwards.

Business Relationships

To win new business from existing or potential customers, it is recognized that in addition to competitive pricing, field application support and reliable solutions are equally important. In the first half, the Group established an additional office in Hsinchu (Taiwan) so as to provide customers with more timely services and support. Briefly, the Group currently serves more than 70 display module makers around the world, including some well known names such as Alps, Arima Display, AU Optronics, BYD, Giantplus, Hosiden, Hyundai LCD, InnoLux, Kopin, Nanya Technology, Ness Display, Optrex, Osram, Philips MDS, Picvue, Quanta Display, RiTdisplay, Samsung SDI, Sanyo Epson Imaging Devices, Sharp, TDK, Truly, Varitronix and Wintek.

The Group believes its display ICs are deployed in cellular phones of global brand names, for example BenQ, Bird, DBTEL, Kyocera, LG, Motorola, Nokia, Panasonic, Pantech, Philips, Samsung, Siemens, Sony Ericsson, TCL, UTStarcom, etc. and in MP3 players with brand names including Creative, IRiver, JNC, Kiss, Sony and others.

Research and Development

In the past six months, research and development costs were approximately US\$5.6 million. To support business growth and to be competitive in the marketplace, the Group will keep on enhancing the features of existing products and developing future products, e.g. LTPS m-TFT display ICs, AM-OLED display ICs, LED driver ICs, multi media processors, large display timing controllers, power management ICs and others. In the first half of 2005, the Group filed one patent with the United States Patent and Trademark Office and had four technical papers published in international magazines such as Information Display and Display Devices.

As at 30 June 2005, the Group had over 170 professionals in the design and engineering function, representing approximately 65% of the Group's total employees. The Group's R&D team continually designed products using various wafer technologies including 0.18 μ m technology. In addition, the Group formed a specialist team to develop its own wafer process technology so as to reduce costs and cycle time.

Human Resources

As at 30 June 2005, the total number of the Group's employees was close to 270, of which approximately 70% were based in its Hong Kong head office.

As a technology company, the Group values highly its human resources. To reward talent, the Group offers competitive remuneration to employees and constantly provides employees with trainings, career development programs, job satisfaction and a first-rate working environment in the hope that they will enjoy working with the Group and contribute their efforts to the Group's success. Winning the "Employer of the Year 2004 Award" from JobsDB.com in March 2005 clearly demonstrated that the Group holds its employees in high regard. In the first half of 2005, most employees were granted cash bonuses and Company's shares in recognition of their performance in 2004.

Prospects

As regards the display business, the Group has restructured it into two parts. The first one is display panel electronics, which the Group is offering today such as driver and controller ICs supporting monochrome STN, color STN, m-TFT and OLED display technologies. The second one is display system ICs, which are complementary and enable the Group to provide customers with “total display solutions”. In respect of display panel electronics, the Group is broadly optimistic about the business growth in the second half because of the expected continuous strong demand for cellular phones and proliferation of MP3 players.

Display Panel

Mobile Display

In the cellular phones market, there are essentially four display panel technologies, namely monochrome STN, color STN, m-TFT and OLED. Each of them is experiencing different phase of growth because of their uniqueness in display characteristics. Generally speaking, the market will see continued migration from monochrome to color display and will have more cellular phones with entertainment features such as embedded cameras, video recording function, Internet access, MP3, radio, MMS, photo albums, etc.

Regarding the Group’s business in the second half, it is expected that the growth of monochrome display ICs will likely remain flat. Despite the industry anticipating that m-TFT will gradually replace color STN display technology, the Group maintains a positive view on the 2005 unit shipment of color STN display ICs because (i) the overall demand for color display is modestly strong (ii) the cellular phones sub-display segment is still dominated by color STN and (iii) there is a trend of color STN being adopted in other consumer electronic products such as DECT phones.

Two other up-and-coming businesses are the increasing application of m-TFT in cellular phones and the rising popularity of OLED type MP3 players. For the former, the Group will be devoting more resources to gaining more customers as well as promoting m-TFT applications in other AV equipment with medium-sized display. As regards OLED, the Group believes its leadership can be extended whenever cellular phones start to adopt full color OLED main displays.

Large Display

Following the pilot shipment of large display TFT driver ICs in the first half, the Group will ramp up the production in the second half, targeting three areas, namely notebook computers, LCD monitors and LCD TVs. In addition, it is the Group’s strategy to work with a few more world-class large panel manufacturers in the region, particularly Japan and China.

New Display

Last year, the Group had micro display ICs ready for customers to commercialize. In the first half of 2005, we saw the Group’s micro display ICs being used in portable video eyewear applications. One of the applications can provide viewers with a virtual image equivalent to a 54-inch flat panel screen viewed from nine feet, a truly private cinema experience. That

said, the Group's micro display ICs can be applied to high definition movies, stereo 3D games entertainment as well as viewfinders of high-end digital cameras. Further, with the forthcoming commercialization of e-paper display ICs, whose application ranges from timepiece to electronic signboard, the Group is well positioned to reap future economic value derived from these new businesses.

Display System

This is a new display business to which the Group is committed in the long term. Display system ICs are those complementing the Group's existing products. In this business area, the Group sees growth opportunities in connectivity, timing controller, image processor as well as power management. For the connectivity, it deals with communications inside a cellular phone or TV set, examples are MPL, MIPI, LVDS and HDMI. Additionally, the Group is developing business in timing controller and image processor. Other products that the Group will further explore are power management ICs and application specific controllers.

Apparently, this new business will not immediately contribute to the Group's turnover. However, with strategic alliances, business cooperation and technology acquisitions, the Group believes the display system business can further its business relationship with customers by offering them "total display system solutions" as well as provide alternative sources of revenue in the near future.

CORPORATE GOVERNANCE

Corporate Governance is highly regarded within the Group. The Group keeps abreast of the best practices in the corporate governance area and strives to implement such practices as appropriate. For example, when the Company was listed in April last year, the Group had segregated the positions of Non Executive Chairman and the Managing Director (effectively the Chief Executive Officer). In addition, Non Executive Directors were appointed for a specific term, subject to re-election according to the procedures set out in the Company's Articles of Association. These practices were adopted by the Company ahead of the implementation date as specified in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all the Code Provisions set out in the Appendix 14. During the six months ended 30 June 2005, Audit Committee, Remuneration Committee and Nomination Committee were formed with their respective terms of reference in force.

Compliance with the Model Code

The Company also established its own written guidelines on securities transactions by Directors and relevant employees ("Guidelines") on no less exacting terms than the required standard in the Model Code set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry of all Directors of the Company, during the six months ended 30 June 2005, all of them were in compliance with the Guidelines.

SUPPLEMENTARY INFORMATION

Purchase, Sale or Redemption of the Company's Listed Shares

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the review period.

Audit Committee

The Audit Committee is composed of a majority of Independent Non-Executive Directors. The Audit Committee has reviewed with the management and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial accounts for the six months ended 30 June 2005.

Publication of Interim Results on the Stock Exchange's Website

The Company will submit to the Stock Exchange on 7 September 2005 the financial information required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules.

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

Hong Kong, 7 September 2005

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.