

**Solomon Systech (International) Limited**  
Annual Report 2004



**SOLOMON  
SYSTECH**

**We  
make  
things  
happen at  
SOLOMON  
SYSTECH**

*solutions in silicon*

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# Corporate Profile

Solomon Systech (International) Limited is a leading fabless semiconductor company specializing in the design, development and sales of proprietary IC products that enable sophisticated display applications such as mobile phones, handheld devices and LCD TVs.


At the heart of the Group is a body of carefully protected intellectual property and an experienced high caliber design team, boasting capabilities across all current mainstream display technologies. The Group's products include STN/CSTN/TFT LCD driver controller ICs, OLED displays driver controller ICs, and mobile multimedia ICs, all of which have encrypted the Group's specialized competence in high integration of functionality. The Group's display ICs are endorsed and widely used by global mobile phone brand names.

Currently a market leader in mobile phone display ICs, the Group is diversifying into new areas such as large displays for LCD TVs, computer monitors, notebook computers, and other high-tech consumer electronic products employing new display technologies such as micro-displays and e-paper.

With expertise in Mixed Mode High Voltage System-On-Chip (HV-SoC) and Very Large Scale Integration (VLSI) design, the Group has a clear edge over its competitors in the fast-moving flat panel display field, thanks to its ability to quickly and successfully commercialize new product ideas.

Since its establishment in July 1999, the Group has achieved an impressive operational and financial performance, and in April 2004, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2878).

The Group serves blue-chip portfolio of global customers and has received many awards from its customers, suppliers and industry organizations as well as from the investment community. As of end of 2004, it had a workforce of approximately 230 employees.

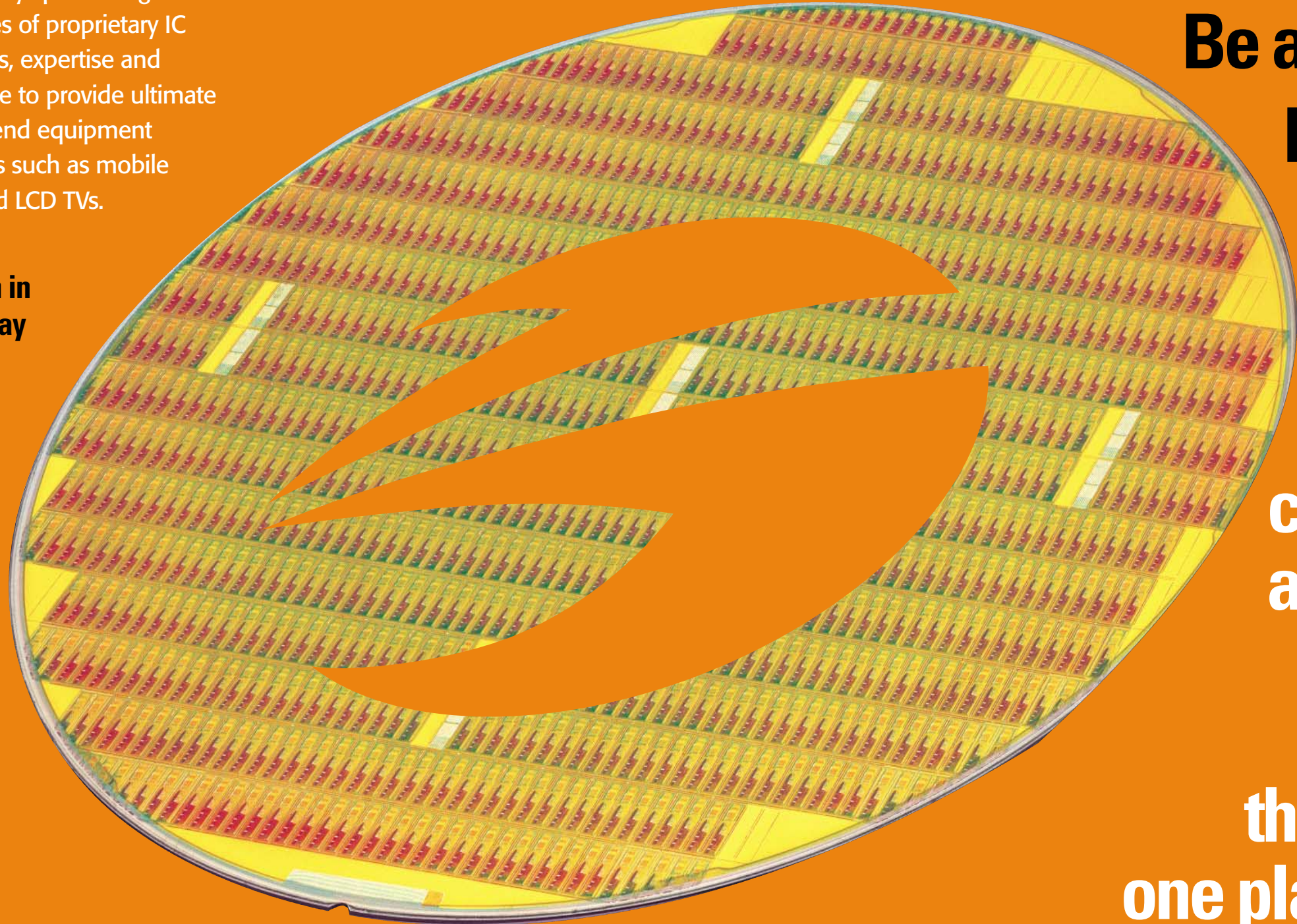




Established in 1999, Solomon Systech is a leading fabless semiconductor company specializing in the design, development and sales of proprietary IC products. It blends innovations, expertise and decades of industry experience to provide ultimate display IC products to global end equipment manufacturers for applications such as mobile phones, handheld devices and LCD TVs.

- **Holding a leading position in global mobile phone display IC market**
- **Supporting all major mobile phone brand names with proprietary IC technology**

We let people around the world enjoy perfect screen images with our cutting-edge display capability.



**Solomon Systech -  
Be a dominant  
provider of  
display IC  
products**

**For total  
confidence  
and perfect  
display  
products,  
there is only  
one place to turn**

*The pop-up illustrates an 8" wafer that encrypts the intelligence, technology and intellectual properties of Solomon Systech*





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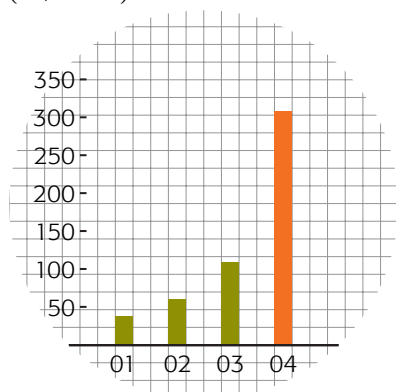
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# Financial Highlights

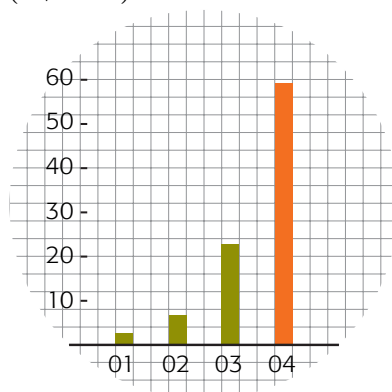
	2004 US\$ million	2003 US\$ million	Change %
Turnover	308.2	109.3	+182%
Gross profit	96.6	46.0	+110%
Net profit	59.2	22.7	+161%
Total assets	249.7	81.6	+206%
Shareholders' funds	176.6	49.9	+254%
US cents			
Earnings per share	2.48	1.09	+127%
Dividends per share	1.88	0.85	+121%

- Turnover grew by 182% attributable to sales of more color display ICs
- Net profit grew by 161% to US\$59.2 million
- Earnings per share was 2.48 US cents, or 19.3 HK cents, an increase of 127%
- The Board resolved to declare a final dividend per share of 1.54 US cents, or 12 HK cents
- Total dividends per share totaled 1.88 US cents, or 14.6 HK cents
- Return on equity reached 52% for the year

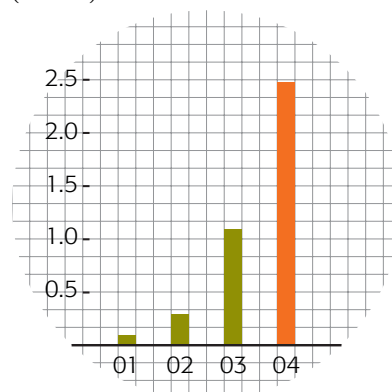
**Turnover**  
(US\$ million)



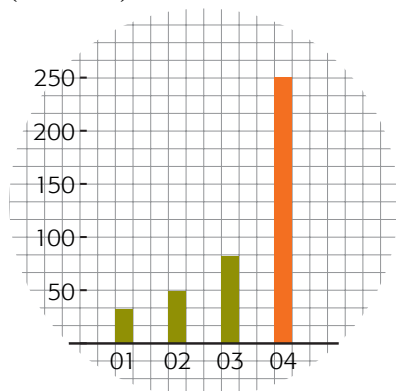
**Net Profit for the Year**  
(US\$ million)



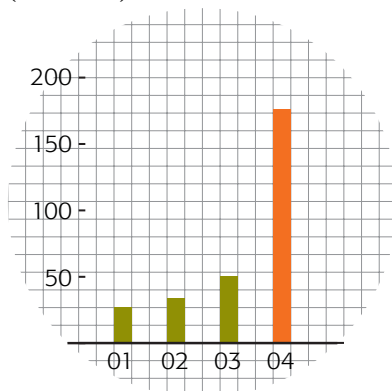
**Basic Earnings per Share**  
(US cents)



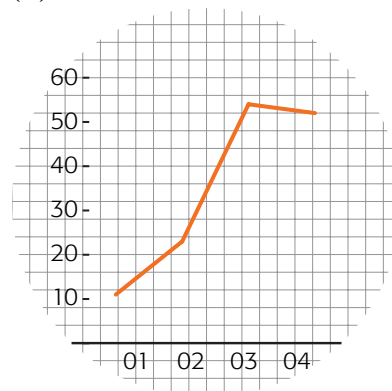
**Total Assets**  
(US\$ million)



**Shareholders' Funds**  
(US\$ million)



**Return on Equity**  
(%)



Note: The significant increase in shareholders' funds of 2004 is mainly due to the net IPO proceeds received in April 2004 and the net profit retained for the year.

Note: Return on equity ("ROE") is calculated by dividing the net profit for the year by simple average of shareholders' funds at the beginning and end of the year. ROE ratio of 2004 reflects the Group's IPO event as well as its cash position during the year.

# Milestones / Awards

## 1999

- Solomon Systech established in Hong Kong
- The first break-even month in December

## 2000

- Accredited with ISO9001 Certification
- Shenzhen Technology Center (SzTC) launched

## 2001

- Awarded HK New SME Gold Award
- Managing Director Mr. Humphrey Leung receives Young Industrialist Award of Hongkong 2001
- Wins Hong Kong Award for Industry: Export Marketing; HKSTP Technological Achievement Award; Trade and Industry Department Quality Award; and HKPC Certificate of Merit in Productivity

## 2002

- Wins Gold Award and Grand Award in the HKEIA Awards for Outstanding Innovation and Technology Products
- Successfully upgraded to ISO9001:2000

## 2003

- Head office relocated to the Hong Kong Science Park
- Chinese Premier Wen Jiabao visits Solomon Systech's head office in Hong Kong
- Wins Hong Kong Award for Industry 2003: Technological Achievement

# In 2004, We Achieve...

## Listing on the Main Board of the Stock Exchange of Hong Kong

### Corporate Awards

#### 2004 Overall Regional Best-Managed Company (Medium Cap)

– *Asiamoney*

#### Enterprise Award

– *DHL/SCMP Business Awards 2004*

#### Deloitte Technology Fast 500 Asia Pacific 2004

– *Deloitte*

#### 2004 Award for Outstanding Financial Performance (by a Public Company)

– *The Fabless Semiconductor Association*

### Technology Awards

#### Grand Award and Gold Award

for Outstanding Innovation and Technology Products

– *Hong Kong Electronic Industries Association*

#### Best Start-Up Award

at the 10th Development Anniversary of China IC Design Industry

– *China Semiconductor Industry Association IC Design Branch*



# How do we make things happen?

# 1. Industry

Our rich pool of industry talents is our most important asset, delivering perfect display IC products that benefit people around the world.





# Talents







# 2.

# Innovation

Our technological innovation and our carefully protected capital of intellectual property put us at the forefront of the display IC products industry. The success of our persistent growth is due not only to our capability to incorporate innovation into structured and highly formalized systems, but also to our expertise in commercializing our technology into valuable product applications.



# 3.

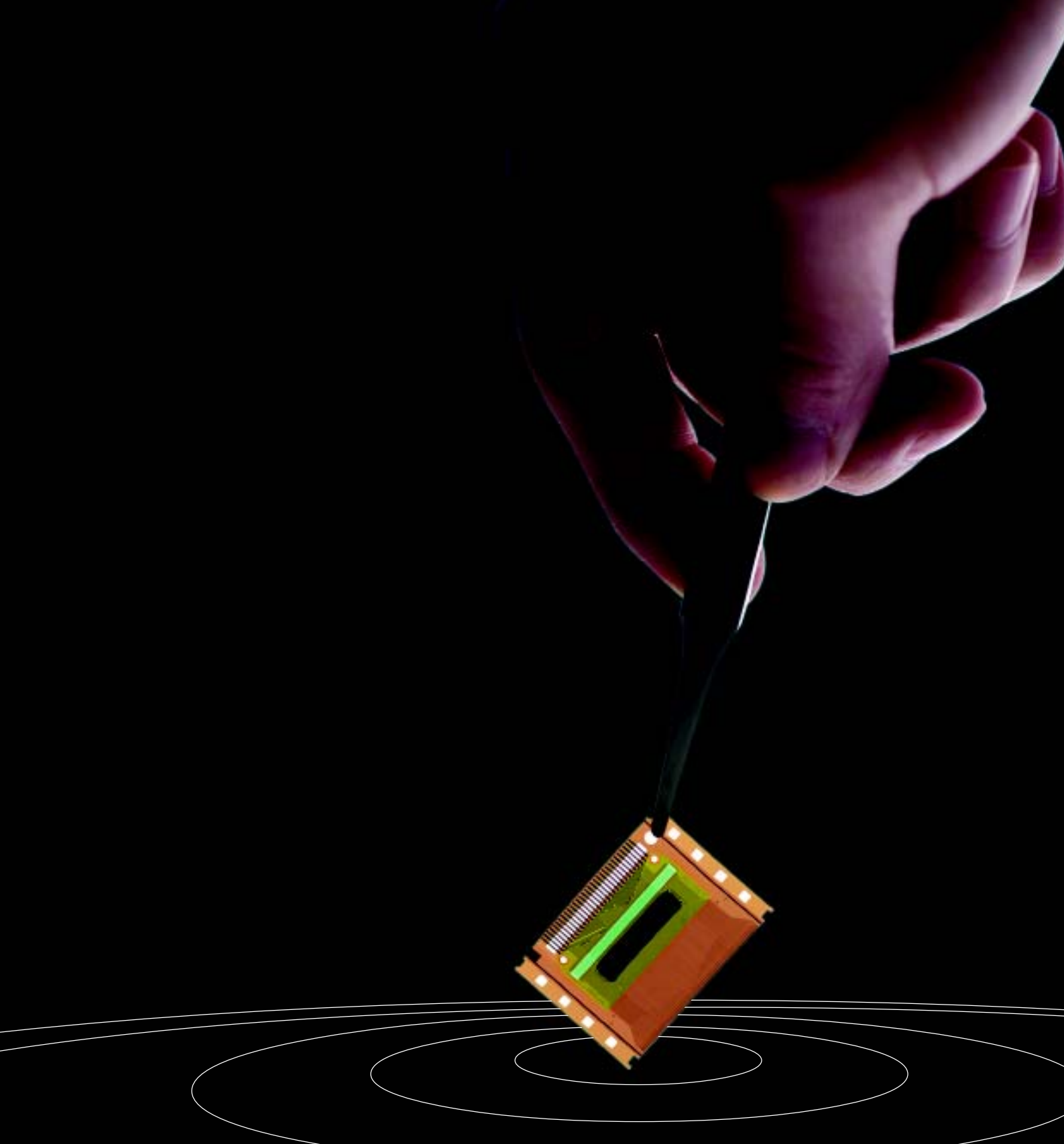
# International Partnership

Solomon Systech, a global brand name, has established strong partnership with international technology leaders and world-class suppliers around the world. We collaborate with international enterprises to commercialize tomorrow's display technologies today.









# 4. Integrity

Our strong code of conduct has built up a reserve of trust and goodwill for the Group in the business community. The integrity of our employees lies at the core of our corporate culture and underpins our remarkable business growth, advanced technological achievements and uncompromising corporate governance.





# Chairman's Statement

**As global economies were gathering pace in 2004, I recalled the short letter "Timely Clearing After Snowfall" written by the sage calligrapher Wang XiZhi some 1,700 years ago. The letter was about Wang's greetings to his friend after a snowfall. Similarly, I would like to send my greetings to all shareholders, quoting the first two sentences of the letter 快雪時晴，佳想安善<sup>1</sup>.**

## Shareholders' Value

Like weather, business conditions change very often. On the macro front, there were a number of events in 2004 that made running business somewhat unpredictable such as weakening of the US dollar, the oil price hike and the less expansive monetary policy by the Federal Reserve. Industry-wise, wafer supply and prices were very volatile and the mobile phone market grew more than 30% in 2004. Remarkably, the Group<sup>2</sup> managed to achieve a 3-digit growth in both turnover and net profit.

The Group's turnover increased by more than 180% in 2004, while net profit grew by 161% in the corresponding period. The significant growth in turnover was due mainly to strong demand for the Group's color display ICs, which saw shipment units quadruple. Overall, the Group's global market share in mobile display ICs has increased to approximately 16%.

For each dollar of capital, the Group generated 52 cents for shareholders in 2004, i.e. a return on equity of 52%. The Group also recognizes that some long term investors, whether institutional or retail, expect stable income streams for their investments. The Group will always be mindful of the expectation of investors as to financial returns, and the dividends payable will be based on the prevailing financial situation of the Group. Dividends paid will total 14.6 HK cents per share for the year, with a final dividend payable of 12 HK cents per share. The overall dividend payout ratio of the Group was approximately 80%, or equivalent to a yield of 8.3% against the IPO price of HK\$1.75.

1. English translation: A blue sky comes after a quick snowfall, I remember my friends and hope they are all doing well.
2. Solomon Systech (International) Limited refers to "Solomon Systech" or the "Company". The "Group" is referred to the Company and its subsidiaries, where the context requires, means any member or members of the Group.



While the Group is running a global business, the Group's management continuously gives priority to care about the community, social and environmental responsibilities. More details of the Group's activities can be found in the section "Social Responsibility".

### Corporate Governance

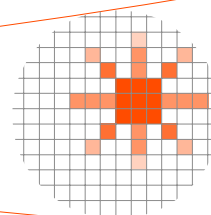
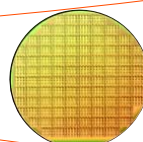
Since the Listing<sup>3</sup> last April, the running of the Group's business and operations have been the responsibility of the Managing Director and other senior executives. As the Chairman of the Group, I am fully accountable to the shareholders and thus take steps to ensure that the Board is functioning effectively. Besides me, the Board consists of another five non-executive directors (including three independent non-executive directors) who also take active roles in various Board committees such as the Audit Committee and the Remuneration Committee.

Apart from complying with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during 2004, the Group had implemented a number of measures to improve its corporate governance standard. For instance, the Group has taken on additional staff to take care of internal control, audit functions, as well as Listing Rules compliance. Further, a company-wide compulsory training on Code of Conduct was regularly conducted to all employees in all regions. These activities served to highlight one clear message - the Group has high regard for the ethics and integrity of its employees.

### Prospects

2004 was a good year for the global semiconductor industry, which saw its strongest growth since the year 2000. The Group expects the market to be volatile and to present it with even more business opportunities and challenges in 2005. Gaining market share and achieving earnings growth are undoubtedly the focus of the Group. In order to achieve this, the Group will launch more new products and secure more new customers in 2005.

3. The Company was listed on 8 April 2004 on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"). The Listing and the offering of shares (the "Shares") of the Company in connection therewith shall be referred to as the "IPO".





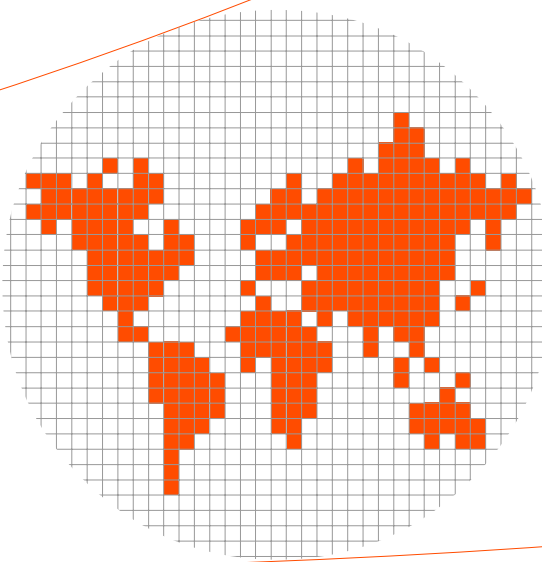
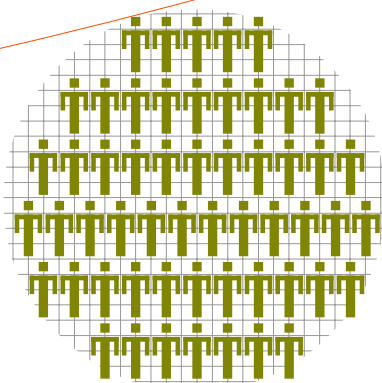
Over the years, the Group's products had rapidly evolved from a single product line (i.e. monochrome display IC for mobile phones) into several key product lines namely CSTN display ICs, mobile TFT display ICs and OLED display ICs. This progression has transformed the Group into a leading global provider of display IC products, especially in the mobile phone market.

The Group also plans to explore more business opportunities in MP3 players, digital cameras, large display and new display areas. Having said that, the Group will take prudent note of variable factors that may affect business in the opposite way, for instance tightening wafer supply, price erosion and a more competitive environment.

In closing, I am very pleased to see the rapid growth of the Group over the past three years (2002 - 2004). The compound annual growth rate of the Group's turnover and net profit have been 102% and 180% respectively. These achievements are very respectable by any measure, in my opinion. In particular, I would like to express my sincere thanks for the unrelenting effort of the management team as well as for the trust and support provided by the existing shareholders. Lastly, I believe given the talented and energetic management team in place, I strongly believe that the Group will grow even bigger and stronger in the years to come.



**LAM Pak Lee**  
*Chairman*



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## Managing Director's Chat Room

**Q: What is your vision for the Group?**

**A:** The Group aims to be a dominant display IC products provider. We blend ideas, innovation and experience into ultimate IC products for perfect display images. And we shall continue to provide our customers with superb and proprietary display IC products.

**Q: What do you consider to be the Group's core competence? What are the growth drivers behind this?**

**A:** First of all, industry talents are our most important assets, especially in this high technology industry. With years of valuable industry experience, our high caliber team including IC design, engineering, manufacturing, marketing and management is the key to enhancing our competitiveness. The team has varied competences in creating innovative products and intellectual property, which will be incorporated into structured and highly formalized systems and be commercialized into valuable product applications that continue to support our strong and persistent growth in business.

As we participate and compete in the high technology industry, we continuously upgrade ourselves and leverage our business through partnering with international technology leaders such as major mobile phone makers and corporations with leading new display technologies, as well as with world-class suppliers around the world. Our collaboration with international enterprises has proven to be a very successful model and enabled us to stay in the industry forefront, commercializing tomorrow's display technologies.



**LEUNG Kwong Wai**  
*Managing Director*

After all, we know we need to strive for excellence. Our strong code of conduct has built a trustworthy goodwill for the Group. The integrity of our employees lies at the core of our corporate culture that underpins our remarkable business growth, advanced technological achievements and uncompromising corporate governance.

**Q: How will you defend the Group's market share amid keen competition?**

**A:** We stay ahead of the competition by this rule of thumb - "Keep using the right technology to develop the right product at the right time." Again, we ride on our competences in innovation and global partnership with particular emphasis on "Time to Market" and "Execution" for today's business, while we also leverage global technology leaders to invest in tomorrow's emerging business.

Serving our customers well is another edge of the Group over its competitors, e.g. exceeding customers' expectation in display IC technology with highly integrated functionalities, providing the most complete range of display IC products in the market, supporting a comprehensive sales network and on-site customers support, and by generating innovative product ideas and building the brand loyalty.



**Q: What is the Group's strategy in developing large display driver ICs?**

**A:** We shall expect volume shipment for our large display driver ICs in the first half of 2005. Initially the ICs will be used in LCD TVs, LCD monitors as well as notebook computers. Benefiting from the sizeable market, the large display IC business will make immediate financial contribution to the Group. In the long term, we see great growth potential in digital broadcasting. And this is where we shall further develop our large display business in order to tap into this significant new market opportunity.

On top of this, we also see the large display driver ICs business creating a synergy to our mobile display business, where the large display business can help to reduce the overall cost through the economy of scale.

**Q: What will be the Group's R&D focus for 2005?**

**A:** The Group's R&D effort can be broadly divided into two areas. The first one is to work on adding value to existing products and broadening the Group's product offerings. The second is to focus on new, related display products that are complementary to existing product knowledge and customer requirements.



**Q: Do you think the high growth phase for display ICs is over?**

**A:** Nearly every end product needs one or more display ICs. In fact, in global terms, the display ICs market is huge. Just for the mobile phone market, the annual shipment is already more than 650 million units in 2004. Other consumer products such as LCD TVs, LCD monitors, digital still cameras (DSC), messaging devices, portable media players do also need display ICs. With the increasing number of applications and correspondingly increasing number of displays in such products, we believe the growth of display ICs is just beginning.

**Q: What is your view on the semiconductor industry in 2005?**

**A:** The global semiconductor industry is expected to achieve a moderate growth in 2005. Looking deeper at the industry, we see that it consists of a number of end user markets such as communications, personal computers, consumer electronics and automobiles etc. Each market may experience different levels of expansion. As our display ICs portfolio covers nearly all major types of end user markets applications, we believe our products and business will be benefited from the growth of any of these end user markets.

# Profile of Directors and Senior Management



## Non-executive Chairman

**Mr. LAM Pak Lee**, aged 55, is the Non-executive Chairman of the Group. He is also the founder, Chairman and CEO of Quanta Computer Inc. (TSE: 2382) and has over 30 years of experience in the industry. Under Mr. Lam's distinguished leadership, Quanta Computer is now the largest notebook computer manufacturer in the world with a market capitalization of approximately US\$5.4 billion. In both 1999 and 2001, Mr. Lam was accredited by *BusinessWeek* as one of the fifty "Stars of Asia". In 2002, he was highlighted in the *BusinessWeek's* list of top 25 managers of the year for his achievements in taking Quanta forward as the number one notebook manufacturer in the world.

## Managing Director

**Mr. LEUNG Kwong Wai**, aged 48, is the founder and Managing Director of the Group and has over 25 years' global experience in the semiconductors industry. Prior to 1999, Mr. Leung was the Director of Operations of Motorola Semiconductors Hong Kong Limited. His working experience covered IC design, wafer fabrication, engineering, manufacturing and marketing. He is currently Director of the Society for Information Display, Hong Kong Chapter and Vice-chairman of Hong Kong Electronics Industry Council of Federation of Hong Kong Industries as well as an executive committee member of Hong Kong Electronic Industries Association. Mr. Leung received the Young Industrialist Award of Hong Kong in 2001 and the Outstanding Polytechnic University Alumni Award in 2003. He also received the Outstanding Achievement Award in 2004 from the China Semiconductor Industry Association as one of the most influential figures at the 10th Anniversary of Chinese IC Design Industry.

## Executive Directors

**Mr. HUANG Hsing Hua**, aged 46, has been a director of the Group since January 2001 and is currently the Sales Director responsible for sales, market development and field applications support. He has over 24 years of working experience in the electronics industry. Prior to his appointment, he worked in Motorola Inc. for 11 years covering functions such as product marketing, planning and sales.

**Mr. LAI Woon Ching**, aged 51, has been the Quality and Manufacturing Director of the Group since its inception in 1999 and is responsible for quality assurance, sub-contractor management and manufacturing technology. He has over 24 years of management experience with expertise in IC production and testing. He was the Senior Quality Manager of Motorola Semiconductors Hong Kong Limited before joining the Group.

**Mr. LO Wai Ming**, aged 42, has been the Business Operations Director of the Group since its inception in 1999 and is responsible for product engineering, test engineering, product marketing and product application. He has 18 years of working experience in the semiconductor industry with a focus on new product and business development. Before joining the Group, he was the Business Operations Manager at Motorola Semiconductors Hong Kong Limited.

## Non-executive Directors

**Mr. CHANG Ching Yi, Steven**, aged 43, Chairman and CEO of China International Development Consulting, Inc. ("CIDC"), has 14 years of experience in managing investments in the semiconductor industry. CIDC is a venture capital firm. It has invested

in over 25 companies across Asia ranging from IC testing and assembly to component manufacturing for the telecommunications market, online role playing gaming and online advertising systems.

**Mr. WONG Yuet Leung, Frankie**, aged 56, Managing Director of Shui On Holdings Ltd. and also CEO of Shui On Construction and Materials Limited (HKSE: 983), has 29 years of management experience. The Shui On Group is engaged principally in property development and investment, construction and construction materials businesses in Hong Kong and Mainland China, with total assets of over HK\$10 billion and employees of about 10,000.

## Independent Non-executive Directors

**Mr. CHOY Kwok Hung, Patrick**, aged 62, who retired from Motorola as its Corporate Vice President after having served numerous senior positions in the Asia Pacific region for 34 years, is the founder and Chairman of Global Strategy Group. Mr. Choy is also a Trustee and Board member of Majulah Connection Limited, a Corporate Advisor to Temasek Holdings Singapore Pte Limited, the Singapore Government investment company which holds major corporations such as Singapore Telecom, Singapore Airlines, DBS and etc, and a Senior Advisor to Freescale Semiconductor. Mr. Choy is a member of the Chinese People's Political Consultative Conference (CPPCC) National Committee, the top consultative and supervisory organization to the Chinese Government for a five year term (2003 - 2008). Mr. Choy is also a Standing Committee member (the Cabinet level) of Tianjin CPPCC and a Vice President of the World Bridge Federation (WBF) as well as the WBF Ambassador to Asia.



**Front Row, from left**

Mr. LAM Pak Lee / Mr. LEUNG Kwong Wai / Mr. HUANG Hsing Hua /  
Mr. CHOY Kwok Hung, Patrick / Mr. SUN, Patrick / Professor KAO Kuen, Charles

**Back Row, from left**

Mr. LAI Woon Ching / Mr. LO Wai Ming / Mr. CHANG Ching Yi, Steven /  
Mr. WONG Yuet Leung, Frankie / Dr. LAI Wai Yan, Stephen / Ms. LUI Kit Har, Keziah /  
Mr. KUNG Tat Wing

**Mr. SUN, Patrick**, aged 46, a member of the Hong Kong Institute of Certified Public Accountants, is currently an Executive Director of SW Kingsway Capital Holdings Limited (a company listed on the Hong Kong Stock Exchange), and Chairman of the Global Strategy Committee of Kingsway International Holdings Limited (a company listed on the Toronto Stock Exchange). He is also an Independent Non-Executive Director of The Link Management Limited and Everbright Pramerica Fund Management Company Limited. He has 20 years of experience in investment banking and was formerly the Deputy Convenor of the Listing Committee and a member of the Council of the Stock Exchange of Hong Kong Limited.

**Professor KAO Kuen, Charles**, aged 71, who has received numerous awards in Hong Kong, the United Kingdom, the United States, Italy, Sweden and Japan, pioneered the research and development of fiber-optic communication transmission systems and has more than 47 years of experience in the telecommunications industry. He is a Fellow of the Institution of Electrical Engineers in Hong Kong, the United Kingdom and the United States. He is also a Fellow of the National Academy of Engineering (USA) and Fellow of the Royal Society (UK). Prof. Kao was previously Chairman of the Energy Advisory Committee in Hong Kong. During his tenure as Vice-Chancellor (President) of The Chinese University of Hong Kong, he instituted quality assurance measures that enabled the University to achieve a very high standing internationally, making it one of the top universities for excellence in teaching and research.

**Senior Management**

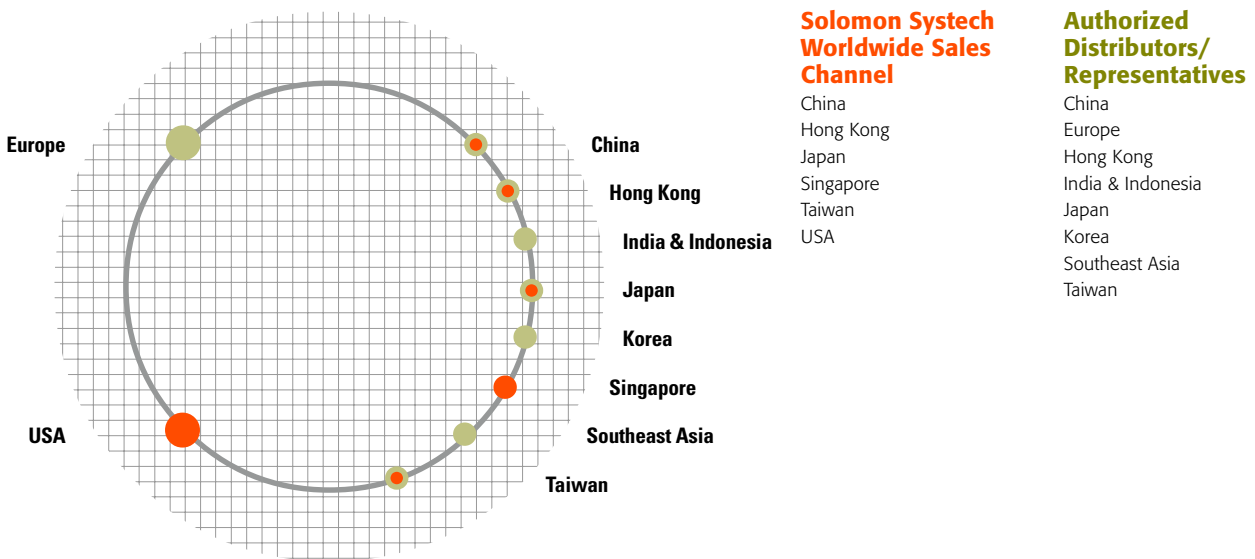
**Dr. LAI Wai Yan, Stephen**, aged 58, has been the Design Director of the Group since its inception in 1999 and is responsible for system engineering, IC design and new technology. He has over 30 years of experience (mainly from the US), in semiconductors and integrated circuits which include technology and product development and management, systems and circuits, IC design and analysis, process and device research and development, design methodology and automation, and analytical instrumentation and semiconductors reliability. Prior to joining the Group, he was the Design Manager at the display IC division at Motorola Semiconductors Hong Kong Limited.

**Ms. LUI Kit Har, Keziah**, aged 44, joined the Group in 2000 as Finance Director and is responsible for accounting, financial management, internal controls, credit control and treasury. She has 15 years of management experience, with a focus on financial management and control. Ms Lui was appointed as the Company Secretary on 3 Feb 2004. She is an associate member of the Institute of Chartered Company Secretaries & Administrators, and a fellow member of the Hong Kong Institute of Certified Public Accountants, and the Chartered Institute of Management Accountants. Ms. Lui is a "Qualified Accountant" of the Company for the purpose of Rule 3.24 of the Stock Exchange Listing Rules. Prior to joining the Group, she held managerial positions at Motorola Semiconductors Hong Kong Limited and Arthur Andersen & Co and was the financial controller of Centralab (Hong Kong) Ltd, a division of Philips Passive Components from 1997 to 1999.

**Mr. KUNG Tat Wing**, aged 44, joined the Group in 2005 as Business Operations Director, is responsible for leading new product introductions, soliciting design-in projects, monitoring product yield performance as well as working on product marketing. Mr. Kung received his master degree in engineering from the University of Hong Kong, and has over 20 years of experience in semiconductor industry. Prior to joining the Group, Mr. Kung was the Director - Business Operations of Wireless & Mobile Systems Group at Freescale Semiconductor Hong Kong Limited. He also held managerial position at Motorola Semiconductors Hong Kong Limited since 1990s, previously spending three years in Australia to develop the business there.



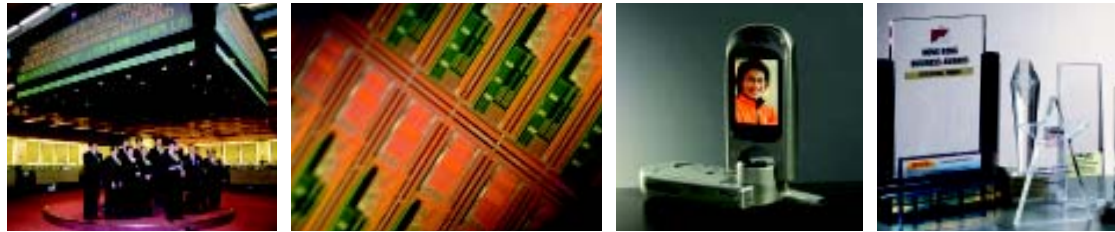
# Management Discussion and Analysis



## Overview

2004 was a year of growth and opportunity for the Group. A few developments were noted in the year. Firstly, in the first half of the year, it was a supplier market whereas the second half was a buyer market. No matter under what circumstances, with the experience and proactive actions of the management team, the Group were able to find ways to take advantage of the changes and to generate and capture more businesses - leading to outstanding financial performance of the Group. Secondly, the mobile phone market grew by roughly 30%. The growth was also accompanied by the increasing popularity of color displays and dual displays. This trend definitely benefited the Group's business. Thirdly, the Group was able to execute its strategy by offering customers more valuable display IC products at the right time and right price, thereby gaining more customers. Fourthly, the Group's business vision was proved to be correct as the Group began to qualify more foundries well ahead of the business ramp-up. Therefore, the Group was able to capture more production capacity to meet increasing demand while the business was at the peak. Lastly, the fabless business model made the Group more flexible and responsive to the market changes.

Well before the demand for display ICs surged in early 2004, the Group had already begun qualifying more foundries in 2003. As a result, the Group could ramp up its business relatively easier because of more secure and sizeable wafers supply. Furthermore, the Group also spent considerable time and efforts in enlarging its customer base. Regarding design-wins, a measure of how ready a customer is to use the Group's display ICs, the Group won 130 design-wins in the year, an 11% increase year-on-year. The Group believes its global market share in mobile phone display IC was roughly 16% in 2004, assuming 30% of global mobile phones had dual displays and a total of 680 million mobile phones were shipped in 2004.



Looking back, there were a number of memorable moments in 2004 to share with the stakeholders of the Group. The most notable event was the flotation of the Company. The Listing marked a distinct achievement in the Group's history. Despite the market sentiment started to cool off at the time of Listing, the Group drew significant interests from institutional investors and the IPO was well received. Within five months after Listing, the Company was picked as one of the constituent stocks within the Hang Seng Composite Index. The index inclusion, decided by the Hang Seng Index Advisory Committee, should reflect that the Group had achieved a meaningful market capitalization and liquidity.

With the aim of increasing the free float and liquidity of the Company's shares, the Company organized a share placement mainly on behalf of its venture capital shareholders. The share placement was well planned and executed, and concluded at a tight discount to the closing price of 11th October, 2004. The share placement, representing roughly 11% of the Company's then existing capital, not only gave an opportunity to the venture capital shareholders to exit part of their holdings, but also partly removed the share overhang that concerned some institutional investors. During the period from the share placement to 31st December, 2004, the average daily volume of the Company's shares was 16.7 million shares, up from 11.3 million shares for the period from the date of IPO to the date of share placement. According to information that was available to the Group as at 31st December 2004, the percentage of the Company's shares that were in the hands of the public exceeded 60% of the Company's total number of issued shares.

Last but not least, the Group is very proud to have received a great number of awards granted by various entities, ranging from the customers, semiconductor industry, to the investment community.

## Financial Review

### 4-year Financial Summary

US\$ million	2004	2003	2002	2001
Turnover	308.2	109.3	60.0	37.5
Gross profit	96.6	46.0	20.9	12.3
Net profit	59.2	22.7	6.8	2.7
Total assets	249.7	81.6	48.5	32.1
Total liabilities	(73.1)	(31.7)	(15.1)	(5.5)
Shareholders' funds	176.6	49.9	33.4	26.6
<b>US cents</b>				
Earnings per share				
Basic <sup>1</sup>	2.48	1.09	0.33	0.13
Diluted <sup>2</sup>	2.48	N/A	N/A	N/A
Dividends per share	1.88 <sup>3</sup>	0.85 <sup>3</sup>	3.40 <sup>4</sup>	-
Net asset per share <sup>1</sup>	7.40	2.41	1.61	1.33

Note:

1. The basic earnings per share and net assets per share are based on the weighted average of 1,985,212,280, 2,074,852,711, 2,074,852,711 and 2,385,681,198 ordinary shares in issue during each of the years ended 31st December 2001, 2002, 2003 and 2004, respectively. In determining the weighted average number of ordinary shares in issue, a total of 1,808,846,553 ordinary shares were deemed to be in issue since 1 January 2001.
2. Diluted earnings per share information was not presented for each of the years ended 31st December 2001, 2002 and 2003 as there were no dilutive potential ordinary shares. The diluted earnings per share information for 2004 is based on 2,385,892,274 ordinary shares which is the weighted average number of shares in issue during the year plus the weighted average number of 211,076 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised.
3. As the first interim dividend of 2004 paid on 1st March 2004 was attributable to the results of 2003, such interim dividend has been included in the computation of dividend per share for 2003 and excluded from the computation for 2004.
4. The dividend was paid by Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholders during the year. The number of SSL's shares in issue at the time of payment was 183,290,271 shares.

### ***Turnover and profit***

For the whole year of 2004, the Group increased its turnover by 182% to US\$308 million. The growth was significant and proved that the Group's strategic decision of focusing on color display ICs, enlarging customer base as well as increasing market share was paying off. By the same token, gross profit also grew to US\$96.6 million, an increase of 110% year-on-year. As the Group intentionally set an aggressive and competitive pricing strategy to gain more market share, the gross profit margin for 2004 was 31.3%, compared to 42.1% in 2003.

The Group's net profit for the year was US\$59.2 million, representing an increase of 161% over the previous year. Net profit margin was 19.2%, compared to 20.8% in 2003. Throughout the year, the Group took every operational measure to contain the costs, thereby ensuring that net profit growth was always higher than the growth of gross profit.

### ***Liquidity and financial resources***

Net cash flow from operations during the year was US\$39.4 million. The net cash of the Group amounted to US\$125 million at year end, compared to US\$37.2 million as at 31st December 2003. The change in cash position was mainly a result of (1) Net IPO proceeds of US\$91.9 million received in April 2004 (2) Interim dividends paid of US\$24.4 million (3) Capital spending of US\$8 million and (4) Working capital requirements of US\$30.3 million due to business expansion. Regarding the proceeds raised from the IPO, the Group will continue to invest in products development, to use cash in securing production capacity and to keep a certain level of cash for general corporate purposes. As at 31st December 2004, 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 attempts 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 12 HK cents per share to shareholders whose names appear on the Register of Members of the Group on 8th April 2005. In summary, the full year dividends per share of 14.6 HK cents represent a payout ratio of approximately 80%, or a yield of 8.3% based on the IPO price of HK\$1.75 on 8th April 2004.

### ***Capital expenditure and contingent liabilities***

In 2004, the Group spent a total of US\$8.0 million in capital expenditure, comprising computer hardware, research and development equipment, critical packaging and testing equipment. Currently, all research and development equipment is located in the Group's offices while all production equipment is consigned to sub-contractors. As at 31st December 2004, the Group had no material capital commitments or contingent liabilities.





## Business Review

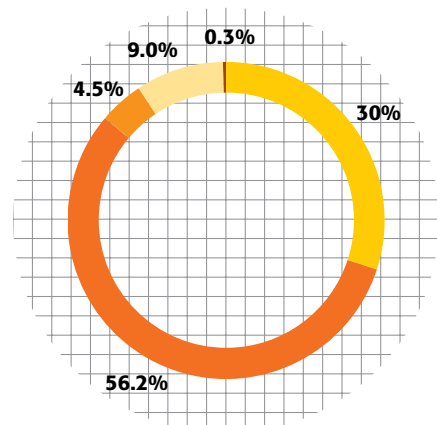
### *Products shipment*

In the first half of 2004, the Group's business growth was somewhat limited by the global shortage of wafers. In the second half, the Group managed to qualify more production capacity and met the customers' orders. The book to bill ratio was 1.2 for 2004, indicating a growing trend of the Group's business and a comfortable level of backlog orders going into 2005. In total, the Group shipped 157 million of display ICs, a growth of 120.8% year-on-year. The driver for the spectacular growth was the popularity of the Group's color display ICs. Due to the change in product mix, i.e. more color display ICs shipped in 2004, the blended average selling price of the Group's products increased from US\$1.53 in 2003 to US\$1.96 in 2004.

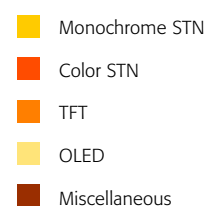
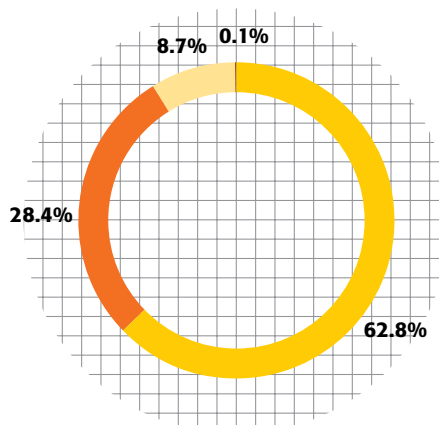
The Group's growth of monochrome STN display ICs was 5.6% in 2004, despite a slowing demand in the market. In connection with the color STN display ICs, it grew by 336.6%. The growth was attributable to a number of factors, including more new products launched and dedicated customer support, right pricing and time-to-market. Another encouraging result was the volume shipment of TFT display ICs, which were commercially used in top brand mobile phone such as Motorola V3. The launching of TFT display ICs demonstrated the Group's ability to execute and deliver the products planned in its products roadmap. Helped by the surging demand for MP3 players globally, the Group recorded a very healthy growth in respect of its OLED display ICs, marking an annual growth rate of 127.4%.

## Units Shipment by Product Lines

Year 2004



Year 2003



### Display ICs Shipped (million units)

	2004	2003	Growth (%)
Monochrome STN	47.1	44.6	5.6
Color STN	88.2	20.2	336.6
TFT	7.1	0.0	NA
OLED	14.1	6.2	127.4
Miscellaneous	0.5	0.1	400.0
<b>Total</b>	<b>157.0</b>	<b>71.1</b>	<b>120.8</b>

Note: Miscellaneous includes graphic controller, PDA and others.

To maintain the Group's leading and competitive position in the market, the Group had been taking the following cost reduction measures during the year, namely

- Adoption of more advanced technology
- High level of functions integration
- Yield improvement
- Reduction in processing steps
- Strategic pricing with suppliers
- Qualification of foundries and suppliers



***New products and customers***

The Group had 16 new products altogether go to production in 2004. Most of them are mobile phone related display ICs, supplied directly to module makers and eventually used by global mobile phone brand names. To promote its latest products and technologies, the Group participated in a number of exhibitions and conferences worldwide in 2004.

<b>Exhibition / Conference</b>	<b>Location</b>	<b>Date</b>
"Key to Success 2004" Seminar	Hong Kong	25th February
The Ninth Annual International IC – China Conference and Exhibition	Shanghai, Beijing, Shenzhen	1st - 9th March
OLEDs Asia 2004, Intertech Conferences	Taipei	8th - 10th March
Hong Kong Electronics Fair (Spring Edition)	Hong Kong	14th - 17th April
SID 2004	Seattle	25th - 27th May
Wireless Multimedia Forum	Shanghai	28th May
FINETECH Japan	Tokyo	30th June - 2nd July
OLED Seminar by PIDA	Taipei	31st August - 1st September
electronicAsia 2004	Hong Kong	13th - 16th October
IC Hong Kong Symposium	Hong Kong	5th November
Electronica 2004	Munich	9th - 12th November
OLEDs 2004 Conference	San Diego	15th - 17th November
Business of Design Week 2004	Hong Kong	16th - 21st November
China SIA - IC Design 2004 Annual Meeting	Shanghai	8th December

In recognition of the Group's product quality and customer services, the Group received more than 10 awards from its customers in 2004.

**Backed by its extensive sales network and all-round customer services, the Group further enlarged its customer base. For instance, the number of customers with more than US\$1 million business with the Group increased from 11 in 2003 to 28 in 2004. At present, the Group serves more than 70 module makers globally, a majority of them are located primarily in Asia.**

The Group believes that the top global mobile phone brand names used 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 either won industry awards or volume business. For instance, the Group's specialized e-paper driver controller IC won the Grand Award and the Gold Award in the annual HKEIA Award for Outstanding Innovation and Technology Products in October 2004. Additionally, the Group produced a special type of graphics controller for high-end printers as well as OLED display ICs for various brands of MP3 players.

### ***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.

In the past twelve months, the research and development costs amounted to roughly US\$11.6 million. The number of employees in the research and development increased to more than 120 as at 31st December 2004. The headcount increase is part of the Group's focused business expansions as the Group has more business opportunity from customers and has to stay ahead of competition with its innovative products for tomorrow's applications. Going forward, the Group will continuously strengthen its research and development team.

The Group's existing and future products are supported by 3 technology centers, namely Hong Kong, Shenzhen and Singapore. Hong Kong research and development team provides a full range of product developments, while Shenzhen operation takes on special projects and Singapore operation focuses on multimedia ICs and intellectual property development. The Singapore Technology Center was set up in April 2004.



**The Group's ultimate research effort is to make the ICs smaller, faster, more power efficient and most importantly to exceed customers' expectations.**

On the front of wafer technology, the Group uses various wafer process geometry up to 0.18 $\mu$ m. A major portion of ICs in production belongs to the 0.25 $\mu$ m or 0.35 $\mu$ m category. Lastly, the Group filed 4 patents and published 6 technical articles in 2004.

**Prospects**

***Mobile display***

The Group had a phenomenal year in 2004 with respect to both turnover and net profit growth. In 2005, the Group forecasts a majority of turnover will be coming from the mobile display area. Within the mobile display area, four different display technologies will be expected to see different growths.

Monochrome display ICs are expected to experience a decline in units shipment owing to the fact that monochrome display will not be in vogue among mobile phone users and other consumers. On the other hand, TFT displays will be emerging strongly given its increasing popularity. That said, the Group maintains the view that conventional CSTN display will be able to keep its good position in the mobile phone area. As regards OLED display, the Group believes that it may take some time for mobile phone users to identify the unique features and advantages of OLED displays. Nevertheless, the application of OLED display in MP3 players has already gathered its strong momentum.

In order to fend off pricing pressure, the Group will incorporate more value-added features into its new family of display ICs with the use of new wafer process technology. Moreover, the Group will regroup its resources so as to target key customers as well as push ahead with its new products.

***Large display***

As planned, the Group in late 2004 concentrated on refining the large display driver ICs and qualifying them with potential panel makers. In 2005, the Group plans to deliver large



display driver ICs in the first half. And the ICs will be used in LCD TVs, LCD monitors as well as notebook computers.

Currently the large display driver ICs market is a very big market and fairly competitive. The Group's products will be competitive in cost and more advanced in performance. As a result, the large display IC business will make financial contribution to the Group's turnover and net profit. In the Group's opinion, entering into large display market makes perfect sense as it also paves the way for the Group to tap into digital broadcasting opportunity in the future. In addition, manufacturing large display ICs will bring economy of scale to the Group's mobile display area.

### ***New display***

New display ICs can be used in consumer electronic products and new applications. Examples are high-end digital camera viewfinders, head-mount devices, flexible timepiece and electronic price tags. As mentioned earlier, the Group's had successfully launched e-paper driver controller IC. At the moment, the Group is exploring the business opportunities in flexible display solution that may find its home in the retailing and logistics sectors.

### ***Miscellaneous***

Apart from the display ICs, the Group plans to launch new products such as melody and multimedia ICs for the mobile phones in 2005. The Group expects the turnover contribution from these new products to be minimal for 2005. However, the growth of multimedia area in the coming years cannot be ignored.

The Group is, by all means, a technology company. Given its business nature, the Group will observe and acquire the latest technology that is relevant to its research or products. To this end, the Group will establish an investment arm to make corporate venture investing with the intention of investing in relevant technologies as well as achieving non-organic growth.

# Corporate Governance Report

One of the Group's long-term corporate developments is to continuously enhance its corporate governance standards. Throughout the year, the Group complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules then in effect. Having made specific enquiry of all directors, the Group confirms that save as referred to below all of the Company's directors did comply with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Mr. CHOY Kwok Hung, Patrick and Mr. LAI Woon Ching advised the Company that due to an inadvertent oversight, certain of the filings required under the Securities and Futures Ordinance and the related notification to the Company were not made within the prescribed time limit. Apart from complying with the requirements set forth in the Listing Rules, the Group does keep track of the latest corporate governance practices overseas.

## Board of Directors

The Board of Directors ("Board") currently consists of a non-executive Chairman, four executive directors (including the Managing Director), two non-executive directors and three independent non-executive directors. Generally, at every annual general meeting of the Company one-third of the directors (other than the Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The membership of the Board represents wide background and rich industry experience.

All independent non-executive directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the developments of the Group and freely express their opinions at Board meetings. All independent non-executive directors, except as disclosed in this annual report, do not have any business or financial interests with the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules.

In 2004, but before the current full Board was constituted, the Board comprised:

- (i) two directors (namely, CHANG Ching Yi, Steven and LEUNG Kwong Wai until 2nd February 2004);
- (ii) four directors (namely, CHANG Ching Yi, Steven, LEUNG Kwong Wai, WONG Yuet Leung, Frankie and HUANG Hsing Hua from 3rd to 24th February 2004); and
- (iii) nine directors (namely, CHANG Ching Yi, Steven, LEUNG Kwong Wai, WONG Yuet Leung, Frankie, HUANG Hsing Hua, LAM Pak Lee, LAI Woon Ching, LO Wai Ming, CHOY Kwok Hung, Patrick and SUN, Patrick from 25th February to 18th March 2004)

and each of such Board meetings was attended by all the directors then in office.

After the full Board was constituted in March 2004, the Board held 5 meetings, for the discussion and approval of important items such as initial public offering, 2004 interim results, 2004 annual results, dividends, the Group's annual budget, business and investments etc. In addition, the Group's management also met with certain non-executive directors to seek their views on certain business or operational matters. The attendance record of the Board meetings is as follows:

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**Number of meetings****5**

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<b>Members of the Board</b>	<b>Meetings Attended</b>	<b>Attendance Rate</b>
<b>Chairman</b>		
LAM Pak Lee	4 / 5	80%
<b>Executive Directors</b>		
LEUNG Kwong Wai	5 / 5	100%
HUANG Hsing Hua	5 / 5	100%
LAI Woon Ching	5 / 5	100%
LO Wai Ming	4 / 5	80%
<b>Non-executive Directors</b>		
CHANG Ching Yi, Steven	4 / 5	80%
WONG Yuet Leung, Frankie	5 / 5	100%
<b>Independent Non-executive Directors</b>		
CHOY Kwok Hung, Patrick	4 / 5	80%
SUN, Patrick	5 / 5	100%
KAO Kuen, Charles	4 / 5	80%
<b>Average Attendance Rate</b>		<b>90%</b>

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### Chairman

The Chairman of the Board is responsible for ensuring that all directors act in the best interest of shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level or strategic decisions.

### Managing Director

The Managing Director is responsible for running the Group and executing the strategies adopted by the Board. He leads the Group's management team in accordance with the directions set by the Board. He is responsible for ensuring that proper internal control system is in place and that the Group's business conforms to applicable laws and regulations. The Managing Director chairs the monthly operations review and staff meeting, as well as the quarterly employees' communication meeting. Accordingly, the role of the Managing Director (which resembles that of a chief executive officer as referred to in the Listing Rules) is different from that of the non-executive Chairman.

### Non-executive Directors

Each of the non-executive directors (including independent non-executive directors) of the Company entered into a one-year service contract with the Company that expired in 2005 and was extended to 30th June 2006. The commencement dates of each of their appointments are as follows:



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**Commencement Date**

**Non-executive Directors**

CHANG Ching Yi, Steven	21st November 2003
WONG Yuet Leung, Frankie	3rd February 2004
LAM Pak Lee	25th February 2004

**Independent Non-executive Directors**

CHOY Kwok Hung, Patrick	25th February 2004
SUN, Patrick	25th February 2004
KAO Kuen, Charles	15th March 2004

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**Audit Committee**

The Group had established an Audit Committee with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 of the Listing Rules. 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 one is necessary.

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal
- To discuss with the external auditors the nature and scope of the audit
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard
- To develop and implement policy on the engagement of an external auditor to supply non-audit services
- To review the Group's interim and annual financial statements before submission to the Board
- To discuss problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss
- To review the external auditors' management letter and the management's response
- To review the Group's statement on internal control system prior to endorsement by the Board
- To review the internal audit program, and ensure that the internal audit function is adequately resourced and has appropriate standing with the Group
- To consider the major findings of any internal investigation and the management's response
- To consider other topics, as defined by the Board

The attendance record of the Audit Committee meetings is as follows:

<b>Number of meetings</b>	<b>2</b>	
<b>Members of the Audit Committee</b>	<b>Meetings Attended</b>	<b>Attendance Rate</b>
SUN, Patrick	2 / 2	100%
CHOY Kwok Hung, Patrick	2 / 2	100%
WONG Yuet Leung, Frankie	2 / 2	100%
<b>Average attendance rate</b>		<b>100%</b>

Throughout the year, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group. As regards external auditors' remuneration, non-audit service was provided by the Group's external auditors during the year under review. The amount of external auditors' remuneration has been disclosed in the section of Financial Statements.

### Remuneration Committee

The Remuneration Committee comprises one non-executive director and two independent non-executive directors. A majority of the votes in the Remuneration Committee are exercisable by independent non-executive directors.

The meetings of the Remuneration Committee shall normally be held not less than once a year to review and approve principally the remuneration of the Managing Director and executive directors of the Group. The Remuneration Committee, currently chaired by Mr. CHANG Ching Yi, Steven has delegated the Managing Director with authority to approve the remuneration of all the employees of the Group below the rank of executive directors. For policy related remuneration schemes, they will be decided by the Board.

The attendance record of the Remuneration Committee meetings is as follows:

<b>Number of meetings</b>	<b>2</b>	
<b>Members of the Remuneration Committee</b>	<b>Meetings Attended</b>	<b>Attendance Rate</b>
CHANG Ching Yi, Steven	2 / 2	100%
CHOY Kwok Hung, Patrick	2 / 2	100%
SUN, Patrick	2 / 2	100%
<b>Average attendance rate</b>		<b>100%</b>

In 2004, the Remuneration Committee determined the policy for the remuneration of the executive directors, assessed their performances as well as approved their employment contracts with the Group.

### Nomination Committee

The Nomination Committee comprises the non-executive Chairman, the Managing Director and one non-executive director. The meeting of the Nomination Committee is arranged and held on an as-needed basis.

The Nomination Committee, currently chaired by Mr. LAM Pak Lee, will identify qualified candidates to fill Board membership whenever such vacancy arises. It will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

The attendance record of the Nomination Committee meeting is as follows:

<b>Number of meetings</b>	<b>1</b>	
<b>Members of the Nomination Committee</b>	<b>Meetings Attended</b>	<b>Attendance Rate</b>
LAM Pak Lee	1 / 1	100%
LEUNG Kwong Wai	1 / 1	100%
CHANG Ching Yi, Steven	1 / 1	100%
<b>Average attendance rate</b>		<b>100%</b>

The Nomination Committee held one meeting in 2004. It reviewed the composition of the Board and considered that there was no immediate need to make any change in relation to the Board membership.

### Internal Controls

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts at protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices under dynamic and challenging business environments. In brief, the Group's internal controls cover a number of in-house procedures and policies. Examples are compliance with the Group's Code of Conduct, adherence to procedure manuals, confidentiality and information disclosure, documentation, authentication of transactions and so on.

### Code of Conduct

Since it was founded in July 1999, the Group has always held a strong belief that the future of the Group's success will rely on its trustworthiness, goodwill and integrity with respect to its dealing with customers, suppliers, employees and governments. The Group has therefore established a set of Code of Conduct for all of its employees to follow. Adherence to the Code is the responsibility of each employee of the Group and is a condition of continued employment. The Code of Conduct deals with key subject areas such as proper use of the Group's funds and assets, customer / supplier / government relationships, conflicts of interest and operating procedures.

## **Corporate Transparency and Investor Relations**

The Group reports to shareholders semi-annually on the Group's business and financial conditions. Ever since the Group became one of the first IC design companies listed on the Main Board of the Hong Kong Stock Exchange, the management had been actively participating in investor forums and conferences in the region as well as meeting investors during non-deal roadshows, with the purpose of sharing the Group's business model and industry dynamics with the investors.

It is the Group's intention to hold analyst meetings and press conference immediately after the announcement of the interim and annual results. Last July, the Group conducted the first interim results announcement and interacted directly with investors, analysts and the media, providing them with insightful information and answering all their queries. From the date of Listing up to 31st December 2004, the Group met 114 analysts or investors at its office, conducted more than 30 pre-arranged conference calls with analysts or investors, organized a non-deal roadshow immediately after the interim results announcement in late July, met more than 80 investors at four investor conferences or forums in Taiwan, Hong Kong, New York and Singapore, made a speech at a private equity conference in Hong Kong and participated in Forbes' Global CEO Conference in Hong Kong.

As part of the Group's efforts to promote its image and publicity, the Group also leverages the networks and experience of public relations firm. During 2004, a total of 23 media interviews were conducted with TV, radio, newspapers and with some well known magazines.

The voice of investors is always invaluable to the Group. In order to improve the communication between the Group and the investors, the Group has recently begun to distribute investor feedback form to investors after each meeting. By which, the Group is able to listen to the investors' views and concerns, and understand them better. The inputs given by investors will be evaluated regularly, summarized and presented to the management team for reference.

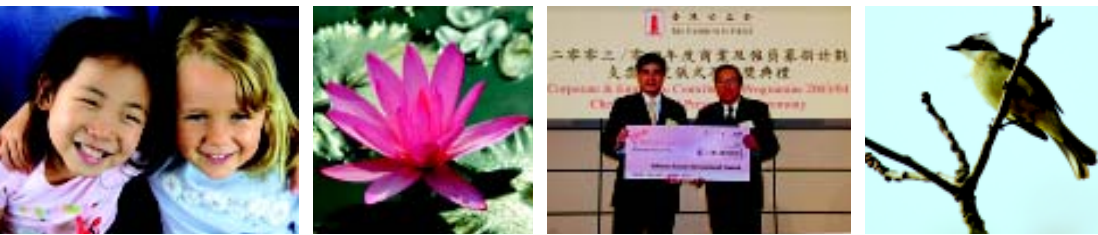
The website of the Group is also updated constantly to inform the investors and the general public of the latest development of the Group.

## **Shareholders' Rights**

The shareholders' rights are of all time highly regarded by the Group. The Group will endeavor that shareholders know how to exercise their rights whenever they wish. The Group has its channels of communication open for shareholders to express their ideas or exert their rights.

With regard to general enquiry, a shareholder may contact the Group's Share Registrar directly. Information on proceedings at general meetings, votes of members, proxies, dividends and reserves, transfer of shares and other information is detailed in the Group's Memorandum and Articles of Association, which may be inspected at the Group's Share Registrar. The contact details of the Group's Share Registrar appear at the end of this report. In the event that a shareholder wishes to put forward a proposal to the Board, he may put forth his enquiry in writing to the Group's Corporate Communications Manager who will act on the subject matter accordingly.

# Social Responsibility



The community is the constant concern of the Group, which seeks to make an appropriate contribution where possible. Wherever the Group opens an office, it tends to hire talents locally. Moreover, the Group is fully committed to providing training to its staff, no matter where they are based.

Being socially responsible is one of the Group's implicit obligations. From time to time, the Group will closely monitor major environmental policies laid down by developed countries and will follow the relevant regulations.

Upon Listing, the Group donated HK\$1 million to the Community Chest to support the charitable organization's social welfare activities. The initiative made by the Group set a good example for the Group's employees to follow in later functions. For instance, over 130 employees participated in the "Dress Casual Day" in last September, contributing a total of HK\$20,000 to the Community Chest.

In an attempt to arouse the youth's interest in environmental protection, the Group organized the employees and their family members to join the "Twelfth Discover Mai Po Charity Walk" in December last year. During the walk, 98 employees and their families enjoyed the beautiful natural landscape of Mai Po, a north western part of Hong Kong, where they learnt something about nature conservation as well as the importance of environmental protection. In addition, an amount of HK\$60,000 was donated to the WWF.

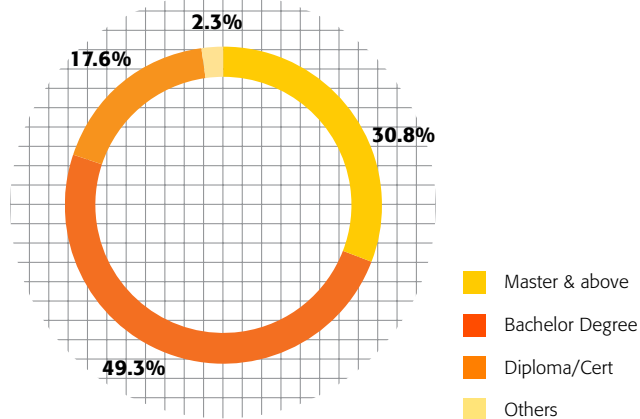
Apart from caring for the local community, the Group also acted swiftly in response to the tragedy which struck South Asia in December. A donation from the Group and its employees of HK\$300,000 was made to the Red Cross, helping those who suffered and survived from the aftermath of Tsunami.



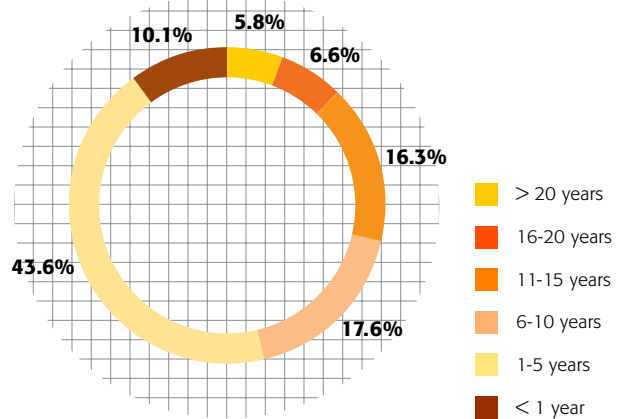
# Employees

As at 31st December 2004, the profile of the Group's employees is highlighted in the charts below:

## Education



## Experience



The Group's ongoing success has been very much attributable to the quality and experience of its staff. The Group places a great deal of emphasis on the continued development and training of its staff, no matter how senior they are or how recently they joined the Group. The Group's training and development policy states that the Group will provide, as appropriate, training and development opportunities to all employees so that they may improve the knowledge and skills they need to perform their current duties effectively and prepare themselves for higher levels of responsibility.

To all new employees, there are mandatory programs for them such as internal control and information protection, ISO and quality management system as well as company orientation introduction. These programs are designed for new hires to get familiar with the Group's operations and its emphasis on quality. Once joined the Group, the new hire will receive continued on-the-job training and is encouraged to look for in-house and job relevant external training. All trainings and development programs primarily serve one of the three main purposes: enhancing an employee's skill-sets, strengthening an employee's understanding of the Group's culture or internal procedures, and providing a professional development to the employee. The Group sponsors up to 100% of the cost of external courses, seminars, conferences, workshops or trainings in accordance with its policy. In 2004, each of the Group's employees received an average of 27 hours of training.



Remuneration of the Group's employees includes basic salaries and bonuses. The Group believes in incentivizing, retaining and rewarding employees, and attracting new talents, through cash and share based incentives which will align their interests with that of the Group. Presently, there are two programs in existence, namely Share Option Scheme and Share Award Plan. All the shares or options of the Group granted to employees in 2005 onwards will be fully expensed according to the Hong Kong Financial Reporting Standard 2 ("Share-based payment"). The Share Option Scheme operates in accordance with the Chapter 17 of the Listing Rules.

Every employee of the Group feels himself as a member of a big family. According to the Group's mission plan, respect for people is a key element of the Group's future success. The Group respects an individual's education, profession, experience, contribution, ideas and personal life. In order to better the relationship among staff, the Group established Employees Recreation Club back in 1999, which at present is composed of representatives from different departments. The club organizes monthly indoor or outdoor activities for all employees to join.

At the year end, the Group had a total of 227 employees. More than 70% of its employees is based in Hong Kong. The Group is an equal opportunity employer. As long as an individual's education, experience and language skills fit, the Group has no preference to the individual's race, gender, religion, age or nationality.

# Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31st December 2004.

## Group Reorganisation

The Company was incorporated in the Cayman Islands on 21st 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 Islands.

Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23rd December 2003. Details of the group reorganisation are set out in the Company's prospectus dated 25th March 2004 (the "Prospectus"). The shares of the Company have been listing on the Stock Exchange since 8th April 2004 (the "Listing Date").

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 55.

During the year, the Directors have declared first interim dividend of HK\$0.066 per ordinary share totalling HK\$124,466,000 (US\$16,039,000) attributable to the results of 2003 and second interim dividend of HK\$0.026 per ordinary share, totalling HK\$65,126,000 (US\$8,360,000) attributable to the results of 2004, which were paid on 1st March 2004 and on 7th September 2004 respectively.

The Directors recommend the payment of a final dividend of HK\$0.12 per ordinary share, totalling HK\$300,583,000 (US\$38,655,000).

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

### Donations

Charitable and other donations made by the Group during the year amounted to US\$167,000.

### Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

### Share capital

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

On the Listing Date, 339,465,640 ordinary shares of HK\$0.10 each were issued to the public at the offer price of HK\$1.75 (the "IPO Offer Price") (approximately 22 US cents) for cash totalling approximately US\$76,555,000.

On 23rd April 2004, 90,536,000 ordinary shares of HK\$0.10 each were further issued to the public at the IPO Offer Price for cash totalling approximately US\$20,417,000 pursuant to the exercise of over-allotment option under the IPO.

Other than the options granted and outstanding under the Pre-IPO Share Option Scheme (see below), the Group did not have any convertible securities, options, warrants or other similar rights outstanding as at 31st December 2004.

### Distributable reserves

As at 31st December 2004, the Company's share premium reserve of approximately US\$112,008,000 (subject to Section 34 of the Cayman Companies Law and the article of association of the Company) and retained earnings of approximately US\$42,336,000 were available for distribution to the Company's shareholders.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association, although there was no restriction against such rights under the laws of the Cayman Islands.

### Financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 91. The Company was listed on 8th April 2004 and the published results are available from 2001 to 2004 only.

### Purchase, sale or redemption of securities

During the period from the Listing Date to 31st December 2004 (the "Listing Period"), the Company did not redeem any of the Company's shares. During the Listing Period, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

## Share Options

### *The Pre-IPO Share Option Scheme*

The Company adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") at an extraordinary general meeting held on 25th February 2004 and a meeting of the Board on 19th March 2004. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors and members of the Group to the growth of the Group and/or to the listing of the Company's shares on the Stock Exchange. Details of the Pre-IPO Scheme are set out in the Prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

On 19th March 2004, options to subscribe for 6,300,000 new Shares of the Company were granted by the Company to directors and senior management of the Group at a nominal consideration of HK\$1.0 payable by each grantee. After the Listing Date, no options can be issued under the Pre-IPO Scheme.

Details of the share options outstanding as at 31st December 2004 which have been granted under the Pre-IPO Scheme are as follows:

	Number of options			Exercise price HK\$	Grant Date	Exercise period	
	Held at 1st January 2004	Granted during the period	Held at 31st December 2004			Begins	Ends
<b>Executive and Non-executive Directors</b>							
Lam Pak Lee	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Chang Ching Yi, Steven	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Wong Yuet Leung, Frankie	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Leung Kwong Wai	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Huang Hsing Hua	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lai Woon Ching	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lo Wai Ming	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009



**Share Options** (continued)

**The Pre-IPO Share Option Scheme** (continued)

	Number of options				Exercise period		
	Held at 1st January 2004	Granted during the period	Held at 31st December 2004	Exercise price HK\$	Grant Date	Begins	Ends
<b>Independent Non-executive Directors</b>							
Choy Kwok Hung, Patrick	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Kao Kuen, Charles	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Sun, Patrick	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
<b>Senior Management</b>							
Lin Hsin Yih	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lui Kit Har, Keziah	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009

Notes:

The options were granted prior to the Company's shares being listed and the IPO Offer Price was used as the exercise price.

No option under the Pre-IPO Scheme lapsed, or was cancelled or exercised during the year.

Since these options were granted on 19th March 2004 which is prior to the listing, the Directors are in the opinion that the fair value of the options granted cannot be estimated reliably as there was no active market price for the Company's shares on the date of grant.

## **Share Options** (continued)

### ***The Share Option Scheme***

The Company also adopted the Share Option Scheme (the "Option Scheme") under which options may be granted to subscribe for Shares. Participants of the Option Scheme shall include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any members of the Group and any advisers, consultants, distributors, contractors, contract manufactures, suppliers, agents, customers, business partners, joint venture business partners, service providers of any members of the Group who the Board considers have contributed or will contribute to the Group ("the Participants"). The purpose of the Option Scheme is to provide Participants with opportunity to acquire proprietary interests in the Company and its Shares for the benefits of the Group with a flexible mean of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants. The terms of the Option Scheme are in accordance with the provisions of the Chapter 17 of Rules Governing the Listing of Securities in Hong Kong. Details of the Option Scheme are set out in the Prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

No option was granted under the Option Scheme since adoption.

## **Directors**

The Directors during the year were:

### ***Executive Directors***

Mr. Leung Kwong Wai	(appointed on 21st November 2003)
Mr. Huang Hsing Hua	(appointed on 3rd February 2004)
Mr. Lai Woon Ching	(appointed on 25th February 2004)
Mr. Lo Wai Ming	(appointed on 25th February 2004)

### ***Non-executive Directors***

Mr. Lam Pak Lee	(appointed on 25th February 2004)
Mr. Chang Ching Yi, Steven	(appointed on 21st November 2003)
Mr. Wong Yuet Leung, Frankie	(appointed on 3rd February 2004)

### ***Independent Non-executive Directors***

Mr. Choy Kwok Hung, Patrick	(appointed on 25th February 2004)
Mr. Sun, Patrick	(appointed on 25th February 2004)
Mr. Kao Kuen, Charles	(appointed on 15th March 2004)

In accordance with Article 112 of the Company's Articles of Association, Messrs. Chang Ching Yi, Steven, Huang Hsing Hua and Wong Yuet Leung, Frankie retire by rotation and, being eligible, offer themselves for re-election.

Messrs. Choy Kwok Hung, Patrick, Sun, Patrick and Kao Kuen, Charles are independent non-executive Directors and were appointed for a term expiring on 30th June 2006.

### **Directors' service contracts**

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### **Interest in contracts**

No contracts of significance (as defined in paragraph 15 of appendix 16 of the Listing Rules) of the Group in which a director of the Company was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year. No contract of significance (including contracts for the provision of services to any member of the Group) between any member of the Group and a controlling shareholder (or any of its subsidiaries) of the Company subsisted at the end of the year or at any time during the year.

### **Biographical details of Directors and senior management**

Brief biographical details of Directors and senior management are set out on pages 20 and 21.

## Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation

At 31st December 2004, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares of the Company and its associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

		Ordinary shares of HK\$0.10 each in the Company					
		Directly Owned		Beneficially Owned		Total	Percentage
		Shares	Options				
Chang Ching Yi, Steven	Long position	2,800,000	800,000	—	3,600,000	0.14%	
	Short position	—	—	—	—	—	
Choy Kwok Hung, Patrick	Long position	500,000	500,000	—	1,000,000	0.04%	
	Short position	—	—	—	—	—	
Huang Hsing Hua (note (i))	Long position	8,300,000	300,000	7,950,000	16,550,000	0.66%	
	Short position	—	—	3,950,000	3,950,000	0.16%	
Kao Kuen, Charles	Long position	—	500,000	—	500,000	0.02%	
	Short position	—	—	—	—	—	
Lai Woon Ching (note (ii))	Long position	32,400,000	300,000	11,300,000	44,000,000	1.76%	
	Short position	—	—	6,300,000	6,300,000	0.25%	
Lam Pak Lee	Long position	70,000,000	800,000	—	70,800,000	2.83%	
	Short position	—	—	—	—	—	
Leung Kwong Wai (note (iii))	Long position	59,400,001	800,000	55,000,000	115,200,001	4.60%	
	Short position	—	—	25,000,000	25,000,000	1.00%	
Lo Wai Ming (note (iv))	Long position	25,180,000	300,000	17,200,000	42,680,000	1.70%	
	Short position	—	—	10,200,000	10,200,000	0.41%	
Sun, Patrick	Long position	—	500,000	—	500,000	0.02%	
	Short position	—	—	—	—	—	
Wong Yuet Leung, Frankie	Long position	—	500,000	—	500,000	0.02%	
	Short position	—	—	—	—	—	

**Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation (continued)**

Notes:

- (i) Out of the 7,950,000 Shares held by Mr. Huang:
  - (a) 3,200,000 Shares are subject to a lock-up and held in custody by HSBC International Trustee Limited as custodian ("the Custodian") for Mr. Huang under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after 8th April 2004 (the "Listing Date");
  - (b) 750,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 4,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
  
- (ii) Out of the 11,300,000 Shares held by Mr. Lai:
  - (a) 4,000,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 2,300,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 5,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
  
- (iii) Out of the 55,000,000 Shares held by Mr. Leung:
  - (a) 12,000,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 13,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 30,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.



## **Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation** (continued)

Notes: (continued)

- (iv) Out of the 17,200,000 Shares held by Mr. Lo:
  - (a) 7,200,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 3,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 7,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
- (v) Details of the Pre-IPO Loyalty Plan, employee share reward plan (being part of the Pre-IPO Stock Reward Scheme) and the Pre-IPO Share Purchase Scheme are set out in the prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

As at 31st December 2004, the register maintained by the Company under Section 352 of the SFO did not have any entry of any interest or short position of any director or the chief executive of the Company in the shares, underlying shares and debentures of any associated corporation of the Company, as the Company had not received notice of any interest or short position of any director or the chief executive of the Company in the shares, underlying shares or debentures of any associated corporation of the Company.

Share options are granted to Directors and senior management under the Pre-IPO Share Option Scheme approved by shareholders at an Extraordinary General Meeting on 25th February 2004 and adopted by the Board of Directors on 19th March 2004. Please refer to the section headed "Share Options" above for more details.

Save for as set out above, and other than the arrangements under the Pre-IPO Loyalty Plan and the Pre-IPO Share Reward Plan set out in the prospectus of the Company dated 25th March 2004 issued in connection with the IPO, at no time during the year was the Company, its subsidiaries or its associated company a party to any arrangement to enable the directors and the chief executive of the Company to hold any interest or short position in the shares or underlying shares in the Company or its associated corporation.

### Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the Directors and the chief executive.

#### (a) ordinary shares of HK\$0.1 each in the Company

Ordinary shares of HK\$0.10 each in the Company				
	Capacity	Long/Short Position	Number of shares	Percentage
Cardio Investments Limited (note (i))	Trustee	Long	174,740,250	6.98%
		Short	174,740,250	6.98%
HSBC International Trustee Limited (note (ii))	Trustee/ Interest by attribution	Long	196,123,520	7.83%
		Short	121,223,520	4.84%
Wintek Corporation (note (iii))	Attributable interest of controlled corporation	Long	139,000,000	5.55%
		Short	—	—

Notes:

- (i) Cardio Investments Limited is the trustee holding these shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited. Cardio Investments Limited is owned as to approximately 33.33% by each of Mr. Leung Kwong Wai, an executive director and Mr. Chang Ching Yi, Steven, a non-executive director respectively of the Company.
- (ii) Out of the 196,123,520 shares:
  - (a) HSBC International Trustee Limited ("HSBC Trust") is the trustee holding an aggregate of 123,123,520 shares, of which 121,223,520 shares are on trust for the beneficiaries under the Pre-IPO Share Reward Plan and the Share Award Plan adopted by the Company.
  - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Shui On Company Limited and therefore is deemed to be interested in the 73,000,000 shares held by Extreme Performance Limited.
  - (c) 73,650,000 shares under the Pre-IPO Share Reward Plan were vested to directors and employees of the Group on 31st December 2004 pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company. The transfer of the legal title of the Shares was completed in January 2005 and HSBC Trust ceased to be a substantial shareholder.
- (iii) Wintek Corporation is deemed to be interested in these shares by virtue of the fact that Wintek Technology (Cayman) Corporation and Wintek (BVI) Corporation are its wholly-owned subsidiaries. Wintek Technology (Cayman) Corporation is interested in 72,000,000 Shares and Wintek (BVI) Corporation is interested in 67,000,000 Shares.

## Substantial shareholders' interests and short positions in the shares and underlying shares of the Company (continued)

### (a) ordinary shares of HK\$0.1 each in the Company (continued)

Save as disclosed above, the Company was not notified of any interests or short positions in the shares or underlying shares of the Company as at 31st December 2004

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Major customers and suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

– the largest supplier	30%
– five largest suppliers combined	84%

### Sales

– the largest customer	21%
– five largest customers combined	74%

Insofar as the directors of the Company are aware, as at 31st December, 2004, none of the Directors, their associates or any shareholder (who to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the then appendix 14 of the Listing Rules. The Code on Corporate Governance Practices under the new appendix 14 of the revised Listing Rules is not applicable to the financial period of the Company ended 31st December 2004.

### **Audit Committee**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants in February 2002 and the relevant provisions in the latest edition of the Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors and a non-executive Director, namely Messrs. Choy Kwok Hung, Patrick, Sun, Patrick and Wong Yuet Leung, Frankie. Two meetings were held during the current financial year.

### **Auditors**

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

On behalf of the Board

#### **LEUNG Kwong Wai**

Managing Director

Hong Kong,

9th March 2005

# Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

## **Auditors' Report To the Shareholders of Solomon Systech (International) Limited**

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 54 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of Directors and auditors**

The Directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 9th March 2005



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# Financial Statements

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# Consolidated Profit and Loss Account

For The Year Ended 31st December 2004

	Note	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Turnover	3	<b>308,238</b>	109,339
Cost of sales		<b>(211,651)</b>	(63,294)
Gross profit		<b>96,587</b>	46,045
Other revenues	3	<b>460</b>	67
Research and development costs		<b>(11,599)</b>	(7,743)
Selling and distribution expenses		<b>(1,667)</b>	(994)
Administrative expenses		<b>(11,669)</b>	(9,510)
Other operating expenses		<b>(108)</b>	(142)
Operating profit	4	<b>72,004</b>	27,723
Finance costs	5	<b>(2)</b>	(2)
Share of result of an associated company		<b>(194)</b>	—
Profit before taxation		<b>71,808</b>	27,721
Taxation	7	<b>(12,641)</b>	(5,036)
Profit attributable to shareholders	8	<b>59,167</b>	22,685
Dividends	9	<b>63,054</b>	—
Earnings per share (US cents)	10		
Basic		<b>2.48</b>	1.09
Diluted		<b>2.48</b>	N/A

# Consolidated Balance Sheet

As at 31st December 2004

	Note	2004 US\$'000	2003 US\$'000
<b>Non-current assets</b>			
Fixed assets	13	<b>9,548</b>	5,490
Patents and intellectual property	14	–	675
Goodwill	15	–	291
Interests in an associated company	17	<b>1,119</b>	–
Investment securities	18	–	–
Fixed bank deposits		<b>11,000</b>	–
		<b>21,667</b>	6,456
<b>Current assets</b>			
Inventories	19	<b>42,458</b>	13,083
Accounts and bills receivables	20	<b>56,862</b>	20,860
Prepayments, deposits and other receivables		<b>1,304</b>	848
Pledged bank deposits	21	<b>2,130</b>	3,183
Bank balances and cash		<b>125,268</b>	37,173
		<b>228,022</b>	75,147
<b>Current liabilities</b>			
Accounts payable	22	<b>54,760</b>	18,476
Bills payable		–	1,505
Accrued charges and other payables		<b>8,393</b>	7,620
Tax payable		<b>9,900</b>	3,494
Obligations under finance leases	23	<b>8</b>	4
		<b>73,061</b>	31,099
<b>Net current assets</b>		<b>154,961</b>	44,048
<b>Total assets less current liabilities</b>		<b>176,628</b>	50,504
<b>Non-current liabilities</b>			
Obligations under finance leases	23	<b>20</b>	1
Deferred taxation	24	<b>29</b>	587
		<b>49</b>	588
		<b>176,579</b>	49,916
<b>Financed by:</b>			
Share capital	25	<b>32,279</b>	24,302
Reserves	26		
Proposed final dividend		<b>38,655</b>	–
Others		<b>105,645</b>	25,614
		<b>144,300</b>	25,614
		<b>176,579</b>	49,916

**LEUNG Kwong Wai**  
Director

**LAI Woon Ching**  
Director

# Balance Sheet

As at 31st December 2004

	Note	2004 US\$'000	2003 US\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	16	<b>50,016</b>	49,916
Fixed bank deposits		<b>6,000</b>	—
		<b>56,016</b>	49,916
<b>Current assets</b>			
Prepayments, deposits and other receivables		<b>98</b>	—
Due from subsidiaries	16	<b>42,485</b>	18,408
Bank balances and cash		<b>88,240</b>	—
		<b>130,823</b>	18,408
<b>Current liabilities</b>			
Due to a subsidiary	16	<b>48</b>	—
Accrued charges and other payables		<b>168</b>	—
		<b>216</b>	—
<b>Net current assets</b>		<b>130,607</b>	18,408
<b>Total assets less current liabilities</b>		<b>186,623</b>	68,324
<b>Financed by:</b>			
Share capital	25	<b>32,279</b>	24,302
Reserves	26		
Proposed final dividend		<b>38,655</b>	—
Others		<b>115,689</b>	44,022
		<b>154,344</b>	44,022
		<b>186,623</b>	68,324

**LEUNG Kwong Wai**  
Director

**LAI Woon Ching**  
Director

# Consolidated Statement of Changes in Equity

For The Year Ended 31st December 2004

	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Exchange reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1st January 2003	23,622	–	2,082	–	7,650	33,354
Exchange differences arising in translation of a subsidiary	–	–	–	(1)	–	(1)
Capitalisation of retained earnings for issue of new shares	680	–	–	–	(680)	–
Dividends	–	–	–	–	(6,122)	(6,122)
Profit for the year	–	–	–	–	22,685	22,685
At 31st December 2003 and 1st January 2004	24,302	–	2,082	(1)	23,533	49,916
Exchange differences arising in translation of the financial statements of foreign subsidiaries	–	–	–	(40)	–	(40)
Capitalisation of retained earnings for issue of new shares	2,436	–	–	–	(2,436)	–
Issue of ordinary shares	5,541	91,431	–	–	–	96,972
Share issue expenses	–	(5,037)	–	–	–	(5,037)
Dividends	–	–	–	–	(24,399)	(24,399)
Profit for the year	–	–	–	–	59,167	59,167
At 31st December 2004	32,279	86,394	2,082	(41)	55,865	176,579

# Consolidated Cash Flow Statement

For The Year Ended 31st December 2004

	Note	2004 US\$'000	2003 US\$'000
<b>Operating activities</b>			
Net cash inflow generated from operations	27	<b>46,231</b>	29,106
Hong Kong profits tax paid		<b>(6,793)</b>	(2,445)
Interest element of finance lease rental payments		<b>(2)</b>	(2)
Net cash inflow from operating activities		<b>39,436</b>	26,659
<b>Investing activities</b>			
Increase in fixed bank deposits		<b>(11,000)</b>	–
Purchase of fixed assets		<b>(7,995)</b>	(4,942)
Sale of fixed assets		–	34
Acquisition of subsidiaries, net of cash acquired		–	44
Acquisition of associated company		<b>(1,313)</b>	–
Interest received		<b>395</b>	67
Net cash outflow from investing activities		<b>(19,913)</b>	(4,797)
<b>Financing activities</b>			
Issue of ordinary shares		<b>96,972</b>	–
Share issue expenses		<b>(5,037)</b>	–
Payment of capital element of finance leases		<b>(8)</b>	(5)
Inception of finance lease		<b>31</b>	–
Decrease/(increase) in pledged bank deposits		<b>1,053</b>	(502)
Repayment of loan from the then shareholders of Systech Technology China Limited		–	(526)
Dividends paid		<b>(24,399)</b>	(6,122)
Net cash inflow/(outflow) from financing activities		<b>68,612</b>	(7,155)
Increase in cash and cash equivalents		<b>88,135</b>	14,707
Effect of foreign exchange rate changes		<b>(40)</b>	(1)
Cash and cash equivalents at 1st January		<b>37,173</b>	22,467
Cash and cash equivalents at 31st December		<b>125,268</b>	37,173
<b>Analysis of balances of cash and cash equivalents:</b>			
Bank balances and cash		<b>125,268</b>	37,173



# Notes to the Accounts

## 1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 21st 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 Islands (the "Cayman Companies Law").

Pursuant to a Group reorganisation, which was completed on 23rd December 2003 (the "Reorganisation"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 8th April 2004 (the "Listing Date"). Further details of the Reorganisation are set out in the prospectus of the Company dated 25th March 2004.

The Reorganisation has been reflected in the accounts by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the accounts for the year ended 31st December 2003 have been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group as if the current structure had been in existence throughout the period presented.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statement for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

## 2. Principal accounting policies (continued)

### (a) Group accounting (continued)

#### (i) Consolidation (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 for by the Company on the basis of dividends received and receivable.

#### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill (net of amortisation) on acquisition.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### (b) Intangibles

#### (i) Patents and intellectual property

Expenditure on acquired patents and intellectual property is capitalised and amortised using the straight-line method over their expected useful lives of five years.

#### (ii) Goodwill

Goodwill comprises: (a) the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/ associated company; and (b) the excess of the costs of an acquisition over the fair value ascribed to the acquired business including patents and intellectual property, at the date of acquisition.

Goodwill is recognised as an asset and amortised using straight-line method over their estimated useful lives. Goodwill arising on acquisitions of business including patents and intellectual property is amortised over 5 years. Goodwill arising on other acquisitions is generally amortised over 2-5 years.

## 2. Principal accounting policies (continued)

### (b) Intangibles (continued)

- (iii) Impairment of intangible assets  
Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

### (c) Fixed assets

- (i) Fixed assets  
Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are 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%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

- (ii) Impairment and gain or loss on sale  
At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (d) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

## 2. Principal accounting policies (continued)

### (e) *Assets under leases*

#### (i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (f) *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. 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.

### (g) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials and sub-contracting charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

## 2. Principal accounting policies (continued)

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### (j) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives to reflect the pattern in which the related economic benefits are recognised.

Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (l) Employee benefits

#### (i) 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.

#### (ii) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (iii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

## 2. Principal accounting policies (continued)

### (l) **Employee benefits** (continued)

#### (iv) Equity compensation benefits

Under the Pre-IPO Share Reward Plan, Pre-IPO Loyalty Plan and Share Award Plan, employees of the Group are entitled to receive shares in the Company. The new shares for the benefit of the employees have been created by capitalising the Company's retained earnings to pay up consideration in full for the new shares issued.

Under the Pre-IPO Share Option Scheme and Share Option Scheme, when the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

### (m) **Deferred taxation**

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (n) **Revenue recognition**

Revenue from the sale of products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment/delivery.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (o) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.



## 2. Principal accounting policies (continued)

### (p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditures comprise additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditures are where the assets are located.

## 3. Turnover, revenues and segment information

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Turnover		
Sale of goods	<b>308,238</b>	109,339
Other revenues		
Bank interest income	<b>395</b>	67
Other income	<b>65</b>	—
	<b>460</b>	67
Total revenues	<b>308,698</b>	109,406

### (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.

### 3. Turnover, revenues and segment information (continued)

#### (b) Geographical segments (continued)

##### (i) Segment revenue

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Taiwan	<b>121,791</b>	32,226
Hong Kong SAR	<b>97,579</b>	47,277
Japan	<b>62,873</b>	24,004
Korea	<b>11,425</b>	3,196
Singapore	<b>8,690</b>	276
Mainland China ("China")	<b>4,123</b>	11
United States of America	<b>400</b>	1,947
Others	<b>1,357</b>	402
	<b>308,238</b>	109,339

##### (ii) Capital expenditures by location of assets

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Hong Kong SAR	<b>2,965</b>	3,234
China	<b>1,456</b>	1,298
Taiwan	<b>3,312</b>	619
Others	<b>262</b>	—
	<b>7,995</b>	5,151

**3. Turnover, revenues and segment information** (continued)

**(b) Geographical segments** (continued)

(iii) Segment assets by location of assets

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Hong Kong SAR	<b>208,186</b>	67,799
Taiwan	<b>35,080</b>	10,009
Others	<b>6,423</b>	3,795
	<b>249,689</b>	81,603

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

#### 4. Operating profit

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Gain on disposal of other investment	<b>180</b>	—
<b>Charging</b>		
Loss on disposal of fixed assets	—	1
Auditors' remuneration	<b>108</b>	28
Depreciation of owned fixed assets	<b>3,932</b>	1,089
Depreciation of leased fixed assets	<b>5</b>	2
Operating leases for land and buildings	<b>490</b>	343
Amortisation of patents and intellectual property included in research and development costs (note 14)	<b>675</b>	900
Amortisation of goodwill included in administrative expenses (note 15)	<b>291</b>	317
Staff costs (excluding Directors' emoluments) (note 6)	<b>10,868</b>	10,414
Net exchange losses	<b>156</b>	77
Provision for doubtful debts	<b>1,174</b>	198
Provision for obsolete inventories	<b>4,232</b>	768

#### 5. Finance costs

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Interest element of finance leases	<b>2</b>	2

#### 6. Staff costs

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Salaries and wages	<b>6,068</b>	4,774
Discretionary bonus	<b>3,781</b>	2,059
Pension costs — defined contribution plans	<b>313</b>	184
Share purchase cost for employees	—	2,652
Other staff benefits	<b>706</b>	745
	<b>10,868</b>	10,414

## 7. Taxation

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

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Hong Kong profits tax	<b>13,385</b>	4,823
(Over)/under provisions in prior years	<b>(186)</b>	152
Deferred taxation (note 24)	<b>(558)</b>	61
<b>Taxation charge</b>	<b>12,641</b>	5,036

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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 respective jurisdictions during the year (2003: Nil).

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

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Profit before taxation	<b>71,808</b>	27,721
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>12,566</b>	4,851
Income not subject to tax	<b>(89)</b>	(11)
Expenses not deductible for taxation purposes	<b>72</b>	151
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	<b>–</b>	49
Tax losses not recognised	<b>278</b>	–
(Over)/under provisions in prior years	<b>(186)</b>	152
Others	<b>–</b>	(156)
<b>Taxation charge</b>	<b>12,641</b>	5,036

## 8. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to extent of profit of US\$50,763,000 (2003: US\$18,408,000).

## 9. Dividends

	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
(a) Dividend attributable to the previous year, approved and paid by Solomon Systech Limited ("SSL", a wholly owned subsidiary of the Company, to its then shareholder during the year: 2002 final, paid, of HK\$0.26 (approximately 3.4 US cents) per ordinary share (Note (i))	–	6,122
(b) Dividend declared by the Company:		
2004 first interim, attributable to the results of 2003, paid, of HK\$0.066 (approximately 0.85 US cents) per ordinary share (Note (ii))	<b>16,039</b>	–
2004 second interim, paid, of HK\$0.026 (approximately 0.34 US cents) per ordinary share (Note (iii))	<b>8,360</b>	–
2004 final, proposed, of HK\$0.12 (approximately 1.54 US cents) per ordinary share (Note (iv))	<b>38,655</b>	–
	<b>63,054</b>	–
Total dividends paid during the year	<b>24,399</b>	6,122

Notes:

- (i) The number of SSL's shares in issue at the time of the payment of the 2002 final dividend was 183,290,271 shares.
- (ii) On 3rd February 2004, the Directors declared the first interim dividend of HK\$0.066 per ordinary share. The first interim dividend was paid on 1st March 2004.
- (iii) On 27th July 2004, the Directors declared the second interim dividend of HK\$0.026 per ordinary share. The second interim dividend was paid on 7th September 2004.
- (iv) At a meeting held on 9th March 2005, the Directors proposed a final dividend of HK\$0.12 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.



## 10. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US\$59,167,000 (2003: US\$22,685,000).

The basic earnings per share is based on the weighted average of 2,385,681,198 (2003: 2,074,852,711) ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 2,074,852,711 ordinary shares were deemed to be in issue since 1st January 2003.

The diluted earnings per share information is based on 2,385,892,274 (2003: 2,074,852,711) ordinary shares which is the weighted average number of shares in issue during the year plus the weighted average number of 211,076 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised. Dilutive earnings per share information was not presented for the year ended 31st December 2003 as there were no dilutive potential ordinary shares during the year ended 31st December 2003.

## 11. Emoluments for Directors and five highest paid individuals

### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors of the Company by the Group during the year are as follows:

	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Fees	<b>114</b>	154
Basic salaries, other allowances and benefits in kind	<b>621</b>	449
Discretionary bonus	<b>793</b>	248
Share Purchase Costs	<b>–</b>	1,031
Retirement benefit scheme contributions	<b>26</b>	23
	<b>1,554</b>	1,905

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

Directors' fees disclosed above include US\$58,000 (2003: Nil) paid to independent non-executive Directors.

## 11. Emoluments for Directors and five highest paid individuals

(continued)

### (a) Directors' emoluments (continued)

The emoluments of the Directors for the company fell within the following band:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000 (approximately US\$129,000)	6	2
HK\$1,000,001 (approximately US\$129,000) to HK\$1,500,000 (approximately US\$193,000)	—	1
HK\$1,500,001 (approximately US\$193,000) to HK\$2,000,000 (approximately US\$257,000)	1	—
HK\$2,000,001 (approximately US\$257,000) to HK\$2,500,000 (approximately US\$322,000)	2	1
HK\$2,500,001 (approximately US\$322,000) to HK\$3,000,000 (approximately US\$386,000)	—	1
HK\$5,000,001 (approximately US\$643,000) to HK\$5,500,000 (approximately US\$707,000)	1	—
HK\$7,500,001 (approximately US\$965,000) to HK\$8,000,000 (approximately US\$1,029,000)	—	1
	<b>10</b>	<b>6</b>

During the year, 5,300,000 (2003 : Nil) options were granted to the Directors of the Group under the Pre-IPO Option Scheme approved by the shareholders at an Extraordinary General Meeting on 25th February 2004. Since these options were granted on 19th March 2004 which is prior to the listing, the Directors are in the opinion that the fair value of the options granted cannot be estimated reliably as there was no active market price for the Company's shares on the date of grant. For details of options granted and exercised during the year, please refer to note 25 to the accounts.

In addition, during the year, 26,400,000 shares from the Pre-IPO Loyalty Plan and 25,100,000 shares from the Pre-IPO Share Reward Plan of the Company were received by the Directors of the Company. The Group's equity compensation plans are described in note 29.

None of the Directors of the Company waived any emoluments during the year.

**11. Emoluments for Directors and five highest paid individuals**

(continued)

**(b) Five highest paid individuals**

	<b>Number of individuals</b>	
	<b>2004</b>	2003
Directors	<b>4</b>	3
Employees	<b>1</b>	2
	<b>5</b>	5

The five individuals whose emoluments were the highest in the Group during the year include four (2003: three) Directors whose emoluments are reflected in the analysis above. The amounts of emoluments paid and payable to the remaining one (2003: two) individual during the year are as follows:

	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Basic salaries, other allowances and benefits in kind	<b>139</b>	470
Discretionary bonus	<b>83</b>	100
Retirement benefit scheme contributions	<b>6</b>	11
	<b>228</b>	581

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

## 11. Emoluments for Directors and five highest paid individuals

(continued)

### (b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
HK\$1,500,001 (approximately US\$193,000) to HK\$2,000,000 (approximately US\$257,000)	1	—
HK\$2,000,001 (approximately US\$257,000) to HK\$2,500,000 (approximately US\$322,000)	—	2
	1	2

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

## 12. Retirement benefit schemes

The Group's major retirement scheme is the defined contribution plan in Hong Kong.

All Hong Kong employees participate in the Mandatory Provident Fund (the "MPF scheme"), a defined contribution scheme managed by an independent trustee. Under the rules of the MPF scheme, the Group make monthly contributions to the scheme at 5% of the employees' gross earnings while each of the employee also make monthly contributions to the scheme at 5% of the employees' gross earnings, subject to a maximum of HK\$1,000 per month per employee. No forfeited contribution is available to reduce the contribution payable in future years.

Employees in Singapore and the PRC participate in certain defined contribution schemes in accordance with relevant rules and regulations in respective jurisdictions. Contributions made under these schemes are not considered significant to the Group.

The Group's contribution to these defined contribution pension schemes are charged to the consolidated profit and loss account as incurred.

### 13. Fixed assets

#### Group

	Leasehold improvements US\$'000	Furniture, fixtures and office equipment US\$'000	Machinery and laboratory equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost					
At 1st January 2004	1,566	3,837	3,321	127	8,851
Additions	135	2,162	5,672	26	7,995
Disposals	(317)	(13)	–	–	(330)
Transfers	–	(32)	32	–	–
At 31st December 2004	1,384	5,954	9,025	153	16,516
Accumulated depreciation					
At 1st January 2004	439	2,182	705	35	3,361
Charge for the year	292	2,013	1,581	51	3,937
Disposals	(317)	(13)	–	–	(330)
Transfers	–	(6)	6	–	–
At 31st December 2004	414	4,176	2,292	86	6,968
Net book value					
At 31st December 2004	970	1,778	6,733	67	9,548
At 31st December 2003	1,127	1,655	2,616	92	5,490

At 31st December 2004, the aggregate net book value of fixed assets held by the Group under finance leases amounted to US\$13,000 (2003: Nil).

### 14. Patents and intellectual property

	Group	
	2004 US\$'000	2003 US\$'000
Cost		
At 1st January and 31st December	<b>4,500</b>	4,500
Accumulated amortisation		
At 1st January	<b>3,825</b>	2,925
Amortisation charge (note 4)	<b>675</b>	900
At 31st December	<b>4,500</b>	3,825
Net book value at 31st December	–	675

## 15. Goodwill

	<b>Group</b>	
	<b>2004 US\$'000</b>	2003 US\$'000
Cost		
At 1st January	<b>933</b>	500
Acquisition of subsidiaries	<b>–</b>	433
At 31st December	<b>933</b>	933
Accumulated amortisation		
At 1st January	<b>642</b>	325
Amortisation charge (note 4)	<b>291</b>	317
At 31st December	<b>933</b>	642
Net book value at 31st December	<b>–</b>	291

## 16. Investments in subsidiaries

	<b>Company</b>	
	<b>2004 US\$'000</b>	2003 US\$'000
Unlisted shares, at cost	<b>50,016</b>	49,916
Due from subsidiaries	<b>42,485</b>	18,408
Due to a subsidiary	<b>(48)</b>	–



**16. Investments in subsidiaries (continued)**

(a) At 31st December 2004, the Company held equity interest in the following subsidiaries:

Name	Place of incorporation and operation	Principal activities	Particulars of shares held	Equity interest	
				2004	2003
Directly held:					
Solomon Systech Limited ("SSL")	Hong Kong	Research, design, development and distribution of integrated circuits	188,585,271 ordinary shares of HK\$1 each	100%	100%
Ample Pacific Limited ("Ample")	British Virgin Islands	Investment holding	50,000 ordinary shares of US\$1 each	100%	—
Comway International Limited	British Virgin Islands	Investment holding	50,000 ordinary shares of US\$1 each	100%	—
Indirectly held:					
Systech Technology China Limited ("STCL")	Hong Kong	Investment holding	10,000 ordinary shares of HK\$1 each	100%	100%
Solomon Systech Inc. ("SSI")	United States of America	Market research	20,000 ordinary shares of US\$1 each	100%	100%
Solomon Systech (Shenzhen) Limited ("SSSZ")	The People's Republic of China	Research, design and development of integrated circuits	HK\$8,000,000 registered capital	100%	100%
Solomon Systech Japan Company Limited ("SSJCL")	Japan	Market research	10,000 ordinary shares of JPY1,000 each	100%	—
Solomon Systech Pte.Ltd. ("SSPL")	The Republic of Singapore	Research, design and development of integrated circuits	480,000 ordinary shares of S\$1 each	100%	—

(b) All amounts due from/to subsidiaries are interest-free and unsecured.

## 17. Interests in an associated company

	<b>Group</b>	
	<b>2004 US\$'000</b>	2003 US\$'000
Share of net assets	<b>1,021</b>	—
Goodwill on acquisition of an associated company less amortisation	<b>98</b>	—
	<b>1,119</b>	—
Unlisted shares, at cost	<b>1,313</b>	—

Details of the associated company as at 31st December 2004 are as follows:

<b>Name</b>	<b>Place of incorporation and operation</b>	<b>Principal activities</b>	<b>Particulars of issued shares held</b>	<b>Interest held directly</b>
WE3 Technology Company Limited	Hong Kong	Research, design, development & distribution of handsets solutions	3,500,000 ordinary shares of HK\$1 each	20%

## 18. Investment securities

	<b>Group</b>	
	<b>2004 US\$'000</b>	2003 US\$'000
Unlisted shares, at cost	<b>284</b>	848
Provision for impairment loss	<b>(284)</b>	(848)
	<b>—</b>	—

**19. Inventories**

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Finished goods	<b>16,949</b>	2,285
Raw materials	<b>30,785</b>	11,842
	<b>47,734</b>	14,127
Less: Provision for obsolete inventories	<b>(5,276)</b>	(1,044)
	<b>42,458</b>	13,083

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to US\$1,283,000 (2003: Nil).

**20. Accounts and bills receivables**

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:

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
0 - 30 days	<b>56,772</b>	17,518
31 - 60 days	–	3,241
61 - 90 days	<b>53</b>	49
91 - 120 days	–	52
121 - 365 days	<b>37</b>	–
	<b>56,862</b>	20,860

**21. Banking facilities**

At 31st December 2004, the banking facilities of the Group amounting to approximately US\$16,232,000 (2003: US\$7,165,000) are secured by the pledge of bank deposits of US\$2,130,000 (2003: US\$3,183,000).

## 22. Accounts payable

The ageing analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
0 - 30 days	<b>53,618</b>	18,299
31 - 60 days	<b>624</b>	170
61 - 90 days	<b>375</b>	7
91 - 120 days	<b>36</b>	—
121 - 365 days	<b>107</b>	—
	<b>54,760</b>	18,476

## 23. Obligations under finance leases

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Wholly repayable within five years	<b>28</b>	5
Current portion	<b>(8)</b>	(4)
	<b>20</b>	1

At 31st December 2004, the Group's finance lease liabilities were repayable as follows:

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Within one year	<b>9</b>	5
In the second to fifth year	<b>24</b>	2
	<b>33</b>	7
Future finance charges on finance leases	<b>(5)</b>	(2)
Present value of finance lease liabilities	<b>28</b>	5
The present value of finance lease liabilities is as follows:		
Within one year	<b>8</b>	4
In the second to fifth year	<b>20</b>	1
	<b>28</b>	5

## 24. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities account is as follows:

	<b>Group</b>	
	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
As at 1st January	<b>587</b>	526
Deferred taxation (credited)/charged to consolidated profit and loss account (note 7)	<b>(558)</b>	61
As at 31st December	<b>29</b>	587

The component of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

	<b>Accelerated tax depreciation</b> US\$'000
At 1st January 2003	526
Charged to consolidated profit and loss account in 2003	61
At 31st December 2003 and 1st January 2004	587
Charged to consolidated profit and loss account in 2004	(558)
At 31st December 2004	29

## 25. Share capital and options

### (a) Share Capital

	2004		2003	
	No. of shares	US\$'000	No. of shares	US\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<b>5,000,000,000</b>	<b>64,433</b>	5,000,000,000	64,433
Issued and fully paid:				
At 1st January 2004/ date of incorporation	<b>1,885,852,711</b>	<b>24,302</b>	1	0
Capitalisation of retained earnings for issue of new shares (notes (c) to (e))	<b>189,000,000</b>	<b>2,436</b>	—	—
New issue of shares (notes (f) and (g))	<b>430,001,640</b>	<b>5,541</b>	1,885,852,710	24,302
At 31st December	<b>2,504,854,351</b>	<b>32,279</b>	1,885,852,711	24,302

#### Notes:

- (a) The Company was incorporated in the Cayman Islands on 21st November 2003 with an authorised share capital of HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.10 each. One subscriber share was issued at par.
- (b) Under the Reorganisation which took place on 23rd December 2003 for the preparation for the listing of the Company's shares on the Stock Exchange, 1,885,852,710 ordinary shares were allotted and issued in consideration of the acquisition by the Company of the entire issued share capital of SSL credited as fully paid to the then shareholders of SSL.
- (c) On 22nd March 2004, a total number of 44,000,000 shares were allotted and issued at par to HSBC International Trustee Limited ("HSBC Trustee"), as the trustee for the Company's Share Award Plan which was adopted by the board of Directors (the "Board") on 19th March 2004. The Company was authorised to capitalise a total of HK\$4,400,000 from its retained earnings and to apply such sum to pay up in full the said 44,000,000 shares of the Company.

## 25. Share capital and options (continued)

### (a) Share Capital (continued)

Notes:

- (d) On 22nd March 2004, a total number of 70,000,000 shares were allotted and issued at par to Cardio Investments Limited, as the trustee for the Company's Pre-IPO Loyalty Plan which was adopted by the Board on 19th March 2004. The 70,000,000 shares were subsequently transferred to and held by HSBC Trustee, the custodian for the Pre-IPO Loyalty Plan. The Company was authorised to capitalise a total of HK\$7,000,000 from its retained earnings and to apply such sum to pay up in full the said 70,000,000 shares of the Company.
- (e) On 22nd March 2004, a total number of 75,000,000 shares were allotted and issued at par to HSBC Trustee under the Company's Pre-IPO share reward plan which was adopted by the Board on 19th March 2004. The Company was authorised to capitalise a total of HK\$7,500,000 from its retained earnings and to apply such sum to pay up in full the said 75,000,000 shares of the Company. On 31st December 2004, 73,650,000 shares under the Pre-IPO share reward plan were vested to Directors and employees of the Group pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company to accelerate the vesting of the Shares under the Pre-IPO share reward plan.
- (f) On 8th April 2004, a total number of 339,465,640 shares were issued to the public at a premium of approximately HK\$1.65 for cash totalling approximately US\$76,555,000. The excess of the issue price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.
- (g) On 23rd April 2004, 90,536,000 shares were issued to the public at a premium of approximately HK\$1.65 for cash totalling approximately US\$20,417,000 pursuant to the exercise of over-allotment option under the IPO. The excess of the issue price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.



## 25. Share capital and options (continued)

### (b) Share options

#### The Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") at an extraordinary general meeting held on 25 February 2004 and a meeting of the Board on 19th March 2004. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors of members of the Group to the growth of the Group and/or to the listing of the Company's shares on the Stock Exchange.

On 19th March 2004, options to subscribe for an aggregate of 6,300,000 new Shares of the Company at the IPO Offer Price were offered by the Company to directors and senior management of the Group at a nominal consideration of HK\$1.0 payable by each grantee. No further options can be offered under the Pre-IPO Scheme. These options may be exercised at any time commencing 9th April 2005 to 8th April 2009, at the exercise price of HK\$1.75 per share.

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2004	2003
At the beginning of the year	—	—
Granted	<b>6,300,000</b>	—
At the end of the year	<b>6,300,000</b>	—

#### The Share Option Scheme

The Company also adopted the Share Option Scheme (the "Scheme") under which options may be granted to subscribe for the Company's shares. Participants of the Scheme shall include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufactures, suppliers, agents customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers have contributed or will contribute to the Group ("the Participants"). The purpose of the Scheme is to provide Participants with opportunity to acquire proprietary interests in the Company and its Shares for the benefits of the Company with a flexible mean of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants. The terms of the Scheme are in accordance with the provisions of the Chapter 17 of the Stock Exchange Listing Rules. During the year, there is no option granted, exercise or cancelled for the Scheme.

## 26. Reserves

### (a) Group

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Share premium	<b>86,394</b>	—
Merger Reserve	<b>2,082</b>	2,082
Exchange reserve	<b>(41)</b>	(1)
Retained earnings	<b>55,865</b>	23,533
	<b>144,300</b>	25,614

Notes:

- (i) Retained earnings of the Group comprise:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Final dividend proposed	<b>38,655</b>	—
Others	<b>17,210</b>	23,533
	<b>55,865</b>	23,533

- (ii) The merger reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

## 26. Reserves (continued)

### (b) Company

Details of movement of the reserves of the Group are set out on page 58 of these accounts.

	<b>Company</b>		
	<b>Share premium</b> US\$'000	<b>Retained earnings</b> US\$'000	<b>Total</b> US\$'000
At 1st January 2004	25,614	18,408	44,022
Capitalisation of retained earnings for issue of new shares (notes 25(c) to (e))	—	(2,436)	(2,436)
Issue of ordinary shares	91,431	—	91,431
Share issue expenses	(5,037)	—	(5,037)
Dividends paid	—	(24,399)	(24,399)
Profit for the year	—	50,763	50,763
At 31st December 2004	112,008	42,336	154,344
Issue of ordinary shares	25,614	—	25,614
Profit for the year	—	18,408	18,408
At 31st December 2003	25,614	18,408	44,022

## 27. Consolidated cash flow statement

### Reconciliation of operating profit to net cash inflow from operations

	<b>2004</b> <b>US\$'000</b>	2003 US\$'000
Operating profit	<b>72,004</b>	27,723
Depreciation of fixed assets	<b>3,937</b>	1,091
Amortisation of patents and intellectual property	<b>675</b>	900
Amortisation of goodwill	<b>291</b>	317
Loss on disposal of fixed assets	<b>—</b>	1
Interest income	<b>(395)</b>	(67)
Operating profit before working capital changes	<b>76,512</b>	29,965
Increase in accounts and bills receivables, prepayments, deposits and other receivables	<b>(36,458)</b>	(8,291)
Increase in inventories	<b>(29,375)</b>	(8,110)
Increase in accounts payable, bills payable, accrued charges and other payables	<b>35,552</b>	13,761
Net decrease in balances due from related companies	<b>—</b>	1,781
Net cash inflow generated from operations	<b>46,231</b>	29,106

**28. Commitments****(a) Capital commitment for property, plant and equipment**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Contracted but not provided for	<b>470</b>	4,141

**(b) Commitment under operating leases**

At 31st December 2004, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>US\$'000</b>	US\$'000
Not later than one year	<b>651</b>	321
Later than one year and not later than five years	<b>2,029</b>	1,405
Later than five years	<b>–</b>	151
	<b>2,680</b>	1,877

**(c)** At 31st December 2004, the Company did not have any material commitment in respect of capital expenditures and operating leases.

## 29. Equity compensation plans

The company has the following equity compensation plans. For details of shares allotted and option granted during the year, please refer to note 25 to these accounts.

	<b>No. of shares</b>
<b>Pre-IPO Share Reward Plan (note (a))</b>	
Issued and allotted to HSBC International Trustee Limited ("HSBC Trust")	75,000,000
Shares vested during the year	(73,650,000)
Unvested shares held by the HSBC Trustee at 31st December 2004	1,350,000
<b>Pre-IPO Loyalty Plan (note (b))</b>	
Issued and allotted to Cardio Investment Limited ("Cardio") as Trustee	70,000,000
Share vested during the year and transferred to HSBC Trustee as custodian	(70,000,000)
Unvested shares held by Cardio at 31st December 2004	—
Vested shares held by HSBC Trust as custodian	70,000,000
<b>Share Award Plan (note (c))</b>	
Issued and allotted to HSBC Trust	44,000,000
Forfeited shares transferred from the employee share reward plan of Solomon Systech Limited	2,223,520
Unvested shares held by the HSBC Trustee at 31st December 2004	46,223,520
<b>Pre-IPO Shares Option Scheme</b>	
Granted during the year and outstanding at 31st December 2004	6,300,000
<b>Shares Option Scheme</b>	
None granted during the year	

## 29. Equity compensation plans (continued)

Notes:

- (a) The shares issued were all granted to Directors and employees of the Group. Under the original terms and condition as specified under the Pre-IPO Share Reward Plan, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date.

Pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company, the Board of Directors decided to accelerate the vesting of shares to 31st December 2004. As a result, 73,650,000 shares were vested on 31st December 2004 and transferred to eligible Directors and employees of the Group.

- (b) The shares issued were all granted to Directors and employees of the Group and were fully vested to eligible Directors and employees on 1st April 2004. Under the terms and condition as specified under the Pre-IPO Loyalty Plan, 25% of the shares will be released from the custodian on each anniversary of the Listing Date.
- (c) The 44,000,000 issued shares together with the forfeited shares of 2,223,520 transferred from the employee share reward plan of a subsidiary, Solomon Systech Limited, were reserved for future grant to employees. Under the terms and condition as specified under the Share Award Plan, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date.

During the year, 3,670,000 shares from the pool of the Share Award Plan were granted to certain employees of the Group leaving a balance of 42,553,520 for grant to Directors and employees in 2005 and beyond.

The Hong Kong Institute of Certified Public Accountants has issued a new Hong Kong Financial Reporting Standard 2 ("HKFRS2") on Share Based Payment which is effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted the new HKFRS2 in the financial statements for the year ended 31st December 2004. The Group shall follow the HKFRS2 to account for the shares vested during 2005 and beyond at appropriate market price at the date of grant.

- (d) Certain senior management and Directors of the Group were granted options to subscribe for an aggregate of 6,300,000 new shares of the Company at the exercise price of HK\$1.75 per share, the IPO Offer Price. These options may be exercised at any time commencing from 9th April 2005 to 8th April 2009. No options were lapsed, cancelled or exercised during the year.

The Directors of the Group are in the opinion that it is not practicable to determine the fair value of the shares issued under the equity compensation plans as there was no active open market for the shares in the Company at the time of the issuance.

## 30. Approval of accounts

The accounts were approved by the board of Directors on 9th March 2005.

# Four-Year Financial Summary

	Year ended 31st December			
	2004	2003	2002	2001
		US\$ million		
Turnover	<b>308.2</b>	109.3	60.0	37.5
Gross profit	<b>96.6</b>	46.0	20.9	12.3
Net profit	<b>59.2</b>	22.7	6.8	2.7
<b>Assets and liabilities</b>				
Total assets	<b>249.7</b>	81.6	48.5	32.1
Total liabilities	<b>(73.1)</b>	(31.7)	(15.1)	(5.5)
Shareholders' funds	<b>176.6</b>	49.9	33.4	26.6
<b>US cents</b>				
Earnings per share				
Basic <sup>1</sup>	<b>2.48</b>	1.09	0.33	0.13
Diluted <sup>2</sup>	<b>2.48</b>	N/A	N/A	N/A
Dividend per share	<b>1.88<sup>3</sup></b>	0.85 <sup>3</sup>	3.40 <sup>4</sup>	—
Net asset per share <sup>1</sup>	<b>7.40</b>	2.41	1.61	1.33

The financial information has been prepared using the merger basis of accounting regarding the Group comprising the Company and its subsidiaries as a continuing entity.

<sup>1</sup> The basic earnings and net assets per share are based on the weighted average of 1,985,212,280, 2,074,852,711, 2,074,852,711 and 2,385,681,198 ordinary shares in issue during each of the years ended 31st December 2001, 2002, 2003 and 2004, respectively. In determining the weighted average number of ordinary shares in issue, a total of 1,808,846,553 ordinary shares were deemed to be in issue since 1st January 2001.

<sup>2</sup> Diluted earnings per share information was not presented for each of the years ended 31st December 2001, 2002 and 2003 as there were no dilutive potential ordinary shares. The diluted earnings per share information for 2004 is based on 2,385,892,274 ordinary shares which is the weighted average number of shares in issue during the year plus the weighted average number of 211,076 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised.

<sup>3</sup> As the first interim dividend of 2004 paid on 1st March 2004 was attributable to the results of 2003, such interim dividend has been included in the computation of dividend per share for 2003 and excluded from the computation for 2004.

<sup>4</sup> The dividend was paid by Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholders during the year. The number of SSL's shares in issue at the time of payment was 183,290,271 shares.



# Corporate Information

## Directors

### **Executive Directors**

Mr. LEUNG Kwong Wai (Managing Director)

Mr. HUANG Hsing Hua

Mr. LAI Woon Ching

Mr. LO Wai Ming

### **Non-Executive Directors**

Mr. LAM Pak Lee (Chairman)

Mr. CHANG Ching Yi, Steven

Mr. WONG Yuet Leung, Frankie

### **Independent Non-Executive Directors**

Mr. CHOY Kwok Hung, Patrick

Mr. SUN, Patrick

Mr. KAO Kuen, Charles

## Company Secretary

Ms LUI Kit Har, Keziah

## Principal Office

6/F., No.3 Science Park East Avenue

Hong Kong Science Park

Shatin, N.T. Hong Kong

Telephone (852) 2207 1111

Fax (852) 2267 0800

## Website

[www.solomon-systech.com](http://www.solomon-systech.com)

## Principal Bankers

The Hong Kong and Shanghai Banking Corporation Limited

The Standard Chartered Bank (Hong Kong) Limited

Hua Nan Commercial Bank, Ltd

DBS Bank (Hong Kong) Limited

## Auditors

PricewaterhouseCoopers

## Solicitors

Richards Butler

# Shareholder Information

## Financial Calendar

<b>Listing Date</b>	8 April 2004
<b>Interim Results Announced</b>	27 July 2004
<b>The Second Interim Dividend Paid</b>	7 September 2004
<b>Annual Results Announced</b>	9 March 2005
<b>Closure of Register of Members</b>	4 - 8 April 2005
<b>Annual General Meeting</b>	8 April 2005
<b>Proposed Final Dividend Payable</b>	22 April 2005

## Information for Shareholder

<b>Company Name</b>	Solomon Systemch (International) Limited
<b>Traded</b>	Main Board of the Stock Exchange of Hong Kong Limited
<b>Stock Codes</b>	2878
<b>Constituent Stock</b>	Hang Seng Composite Index
<b>Business Classification</b>	Industrials
<b>Registrars</b>	Tricor Investor Services Ltd.

G/F Bank of East Asia Harbour View Centre  
56 Gloucester Road Wanchai Hong Kong  
Tel: (852) 2980 1333  
Fax: (852) 2861 0040  
Website: [www.tricor.com.hk](http://www.tricor.com.hk)

## Corporate Communications

Yvonne Chan, Corporate Communications Manager  
Solomon Systemch (International) Limited  
Tel: (852) 2207 1111  
Fax: (852) 2207 1372  
Email: [communication@solomon-systemch.com](mailto:communication@solomon-systemch.com)

<b>Listing Date &amp; Price</b>	8 April 2004 / HKD1.75
<b>Financial Year End</b>	December 31
<b>Trading Currency</b>	HKD
<b>Authorized Shares</b>	5,000,000,000
<b>Issued Shares</b>	2,504,854,351 (as at 31 December 2004)
<b>Par Value</b>	HKD0.10
<b>Board Lots</b>	2,000

**Solomon Systech (International) Limited**

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