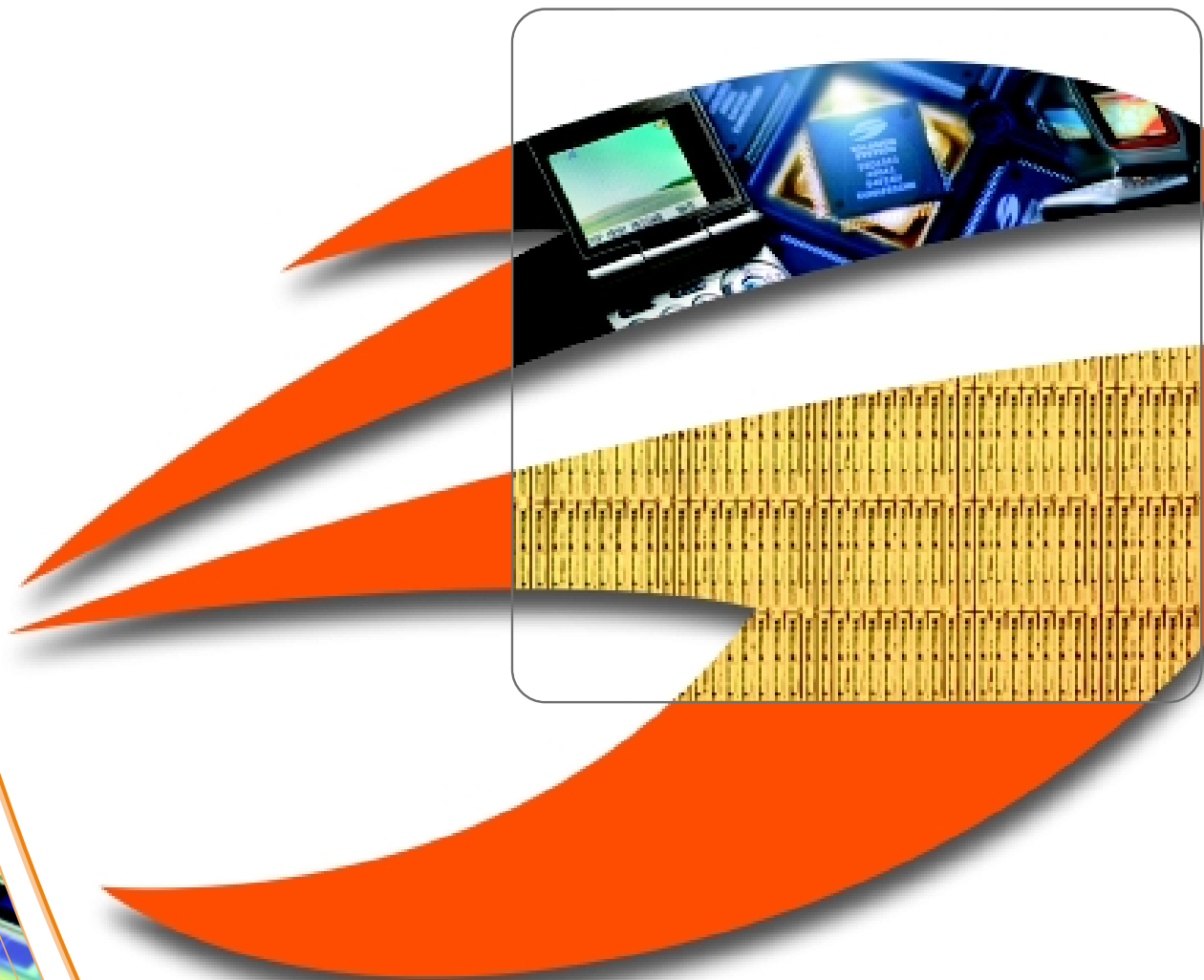
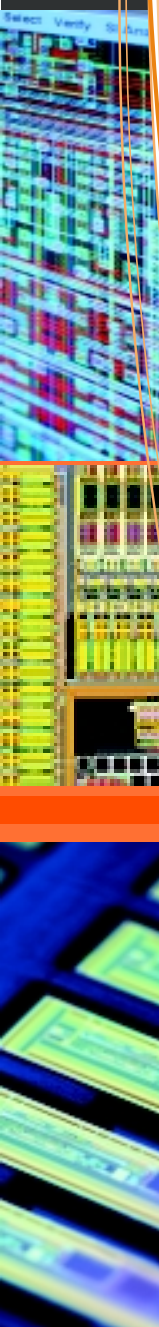


SOLOMON SYSTECH (INTERNATIONAL) LIMITED



SOLOMON
SYSTECH



2004 Interim Report

CONTENTS

Financial Highlights	1
Interim Dividend	1
Closure of Register of Members	1
Interim Results	1
Condensed Consolidated Profit and Loss Account	2
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	6
Notes to the Condensed Accounts	7
Independent Review Report to the Board of Directors	16
Management Discussion and Analysis	17
Directors' Interest	22
Substantial Shareholders	25
Share Option Schemes	26
Supplementary Information	27
Information for Investors	29

FINANCIAL HIGHLIGHTS

<i>(USD '000)</i>	Unaudited		Growth
	Six months ended 30 June 2004	2003	
Turnover	110,125	46,355	138%
Gross profit	39,696	19,476	104%
Gross margin (%)	36	42	
Net profit	22,932	9,572	140%
Net margin (%)	21	21	
Earnings per share (US cents)			
Basic	1.01	0.46	120%
Diluted	1.01	0.46	120%

- Turnover grew by 138% from gaining market share and successful marketing and sales of more colour display ICs.
- Gross profit grew by 104% while gross margin dropped by 6% due to the Group's strategic decision to maintain a competitive pricing policy to expand market share.
- Net profit grew by 140%, outperforming turnover growth, was attributable to gain in operational efficiency.
- Positive business prospects, strong market position as well as sound earnings and cash position enabled a healthy dividend payout.

INTERIM DIVIDEND

The Directors have resolved to declare a second interim dividend of 2.6 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 27 August 2004. The interim dividend will be paid on 7 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 August 2004 to 27 August 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 24 August 2004.

INTERIM RESULTS

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Note	Unaudited Six months ended 30 June	
		2004 US\$'000	2003 US\$'000
Turnover	2	110,125	46,355
Cost of sales		(70,429)	(26,879)
Gross profit		39,696	19,476
Other revenues	2	120	28
Research and development costs		(4,615)	(3,029)
Selling and distribution expenses		(688)	(427)
Administrative expenses		(6,783)	(3,764)
Other operating income/(expenses)		211	(670)
Operating profit	4	27,941	11,614
Finance costs		(1)	(1)
Share of result of an associated company		(22)	—
Profit before taxation		27,918	11,613
Taxation	5	(4,986)	(2,041)
Profit attributable to shareholders		22,932	9,572
Dividends	6	24,432	—
Earnings per share (US cents)	7		
Basic		1.01	0.46
Diluted		1.01	0.46

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2004**

	Note	Unaudited 30 June 2004 US\$'000	Audited 31 December 2003 US\$'000
Non-current assets			
Fixed assets		9,908	5,490
Patents and intellectual property		225	675
Goodwill		133	291
Investment in an associated company		1,242	—
Fixed bank deposit		1,000	—
		12,508	6,456
Current assets			
Inventories		20,321	13,083
Accounts and bills receivables	8	29,381	20,860
Prepayments, deposit and other receivables		1,086	848
Pledged bank deposits		3,183	3,183
Bank balances and cash		124,402	37,173
		178,373	75,147
Current liabilities			
Accounts payable	9	25,759	18,476
Bills payable		1,459	1,505
Accrued charges and other payables		6,276	7,620
Tax payable		8,193	3,494
Obligations under finance leases		6	4
		41,693	31,099
Net current assets		136,680	44,048
Total assets less current liabilities		149,188	50,504

		Unaudited 30 June 2004 US\$'000	Audited 31 December 2003 US\$'000
Non-current liabilities			
Obligations under finance leases		12	1
Deferred taxation	10	431	587
		443	588
		148,745	49,916
Financed by:			
Share capital	11	32,279	24,302
Reserves			
Proposed interim dividend	6	8,393	—
Other		108,073	25,614
Shareholders' funds		148,745	49,916

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Unaudited					Total US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Exchange reserve US\$'000	Retained earnings US\$'000	
At 1 January 2003	23,622	—	2,082	—	7,650	33,354
Capitalisation of retained earnings for issue of new shares	680	—	—	—	(680)	—
Dividends paid	—	—	—	—	(6,122)	(6,122)
Profit for the period	—	—	—	—	9,572	9,572
At 30 June 2003	24,302	—	2,082	—	10,420	36,804
At 1 January 2004	24,302	—	2,082	(1)	23,533	49,916
Exchange differences	—	—	—	1	—	1
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 paid	—	—	—	—	(16,039)	(16,039)
Profit for the period	—	—	—	—	22,932	22,932
At 30 June 2004	32,279	86,394	2,082	—	27,990	148,745

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		US\$'000	US\$'000
Net cash inflow from operating activities		19,461	10,937
Net cash outflow from investing activities		(8,141)	(3,241)
Net cash inflow/(outflow) from financing activities		75,908	(6,627)
Increase in cash and cash equivalents		87,228	1,069
Effect of foreign exchange rate changes		1	185
Cash and cash equivalents at 1 January		37,173	22,467
Cash and cash equivalents at 30 June		124,402	23,721
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		124,402	23,721

NOTES TO THE CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Under a group reorganisation, which was completed on 23 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 (the "Stock Exchange") on 8 April 2004 (the "Listing"). Further details of the Reorganisation are set out in the prospectus of the Company dated 25 March 2004 (the "Prospectus").

The Reorganisation has been reflected in these interim accounts by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the interim accounts for the six months ended 30 June 2004 has been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group for the six months ended 30 June 2003 as if the current structure had been in existence throughout the period presented.

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the preparation of the Accountants' Report as set out in Appendix I of the Prospectus.

The accounting policy of investment in associated companies which was not previously disclosed is set out below.

Associated company

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 condensed consolidated profit and loss account includes the Group's share of the results of the associated company for the period, and the condensed consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

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.

2 Revenues and turnover

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

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Turnover		
Sale of goods	110,125	46,355
Other revenues		
Bank interest income	78	27
Other income	42	1
	120	28
Total revenues	110,245	46,383

3 Segmental analysis

Segment information is presented in respect of Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

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

(b) Geographical segments

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

(i) Segment revenue

	Unaudited	
	Six months ended	
	30 June	
	2004	2003
	US\$'000	US\$'000
Hong Kong	35,422	21,877
The People's Republic of China (the "PRC")	1,865	—
Taiwan	43,434	12,112
Japan	15,391	10,189
Korea	4,670	1,309
United States of America	311	510
Others	9,032	358
	110,125	46,355

(ii) Capital expenditures by location of assets

	Unaudited	
	Six months ended	
	30 June	
	2004	2003
	US\$'000	US\$'000
Hong Kong	1,794	1,616
The PRC	1,269	37
Taiwan	2,887	—
Others	147	—
	6,097	1,653

(iii) No geographical analysis for segment assets is presented as over 90% of the Group's segment assets are located in Hong Kong.

4 Operating profit

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Operating profit is stated after crediting and charging the following:		
<i>Crediting</i>		
Gain on disposal of other investment	180	—
Exchange gain	103	26
<i>Charging</i>		
Depreciation of owned fixed assets	1,678	311
Depreciation of leased fixed assets	2	1
Amortisation of patents and intellectual property included in research and development costs	450	450
Amortisation of goodwill included in administrative expenses	50	50
Staff costs	5,722	4,430

5 Taxation

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

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Current taxation:		
Hong Kong profits tax	5,142	2,008
Deferred taxation (<i>note 10</i>)	(156)	33
	4,986	2,041

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. No provision for income tax has been provided for subsidiaries operating outside Hong Kong as they did not generate any assessable profits in their respective jurisdictions during the period.

6 Dividends

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
(a) Dividend attributable to the previous year, approved and paid during the period: 2002 final, paid, of HK\$0.26 (approximately 3.4 US cents) per ordinary share of Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholder (<i>Note (i)</i>)	—	6,122
(b) Dividend attributable to the year: 2004 first interim, paid, of HK\$0.066 (approximately 0.85 US cents) per ordinary share (<i>Note (ii)</i>) 2004 second interim, declared, of HK\$0.026 (approximately 0.34 US cents) per ordinary share (<i>Note (iii)</i>)	16,039 8,393	— —
	24,432	6,122

Notes:

- (i) The number of SSL's shares in issue at the time of the payment of 2002 final dividend was 183,290,273 shares.
- (ii) On 3 February 2004, the Directors declared the first interim dividend of HK\$0.066 per ordinary share for the year ending 31 December 2004. The first interim dividend was paid on 1 March 2004.
- (iii) On 27 July 2004, the Directors declared the second interim dividend of HK\$0.026 per ordinary share which will be payable to shareholders whose names appear on the register of members on 27 August 2004. The second interim dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

7 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US\$ 22,932,000 (2003: US\$9,572,000).

The basic earnings per share is based on the weighted average number of 2,265,853,248 (2003: 2,074,852,711) ordinary shares in issue during the period. The diluted earnings per share is based on 2,266,119,827 (2003: 2,074,852,711) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 266,579 (2003: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8 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 at the respective balance sheet dates was as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2004	2003
	US\$'000	US\$'000
0 - 30 days	29,039	17,518
31 - 60 days	100	3,241
61 - 90 days	196	49
91 - 120 days	3	52
121 - 150 days	43	—
	<hr/> 29,381 <hr/>	<hr/> 20,860 <hr/>

9 Trade and other payables

The ageing analysis of trade payables at the respective balance sheet dates was as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2004	2003
	US\$'000	US\$'000
0 - 30 days	24,931	18,299
31 - 60 days	367	170
61 - 90 days	211	7
91 - 120 days	127	—
121 - 150 days	123	—
	<hr/> 25,759 <hr/>	<hr/> 18,476 <hr/>

10 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rates prevailing in the countries in which the Group operates.

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

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
At the beginning of the period	587	526
Deferred taxation (credited)/charged to consolidated profit and loss account	(156)	33
At the end of the period	431	559

11 Share capital

	Ordinary shares of HK\$0.1 each	
	No. of shares	US\$'000
Authorised	5,000,000,000	64,433
Issued and fully paid:		
At the date of incorporation (<i>Note (a)</i>)	1	0
Share allotted and issued on 23 December 2003 (<i>Note (b)</i>)	1,885,852,710	24,302
At 31 December 2003	1,885,852,711	24,302
Capitalisation of retained earnings for issue of new shares (<i>Notes (c) to (e)</i>)	189,000,000	2,436
New issue of shares (<i>Notes (f) and (g)</i>)	430,001,640	5,541
At 30 June 2004	2,504,854,351	32,279

Note:

- (a) The Company was incorporated in the Cayman Islands on 21 November 2003 with an authorised share capital of HK\$500,000,000 (approximately US\$64,433,000) 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 23 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 22 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 (the "Board") of Directors on 19 March 2004. The Company was authorised to capitalise a total of HK\$4,400,000 (approximately US\$567,000) from its retained earnings and to apply such sum to pay up in full the said 44,000,000 shares of the Company.
- (d) On 22 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 19 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 (approximately US\$902,000) 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 22 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 19 March 2004. The Company was authorised to capitalise a total of HK\$7,500,000 (approximately US\$967,000) from its retained earnings and to apply such sum to pay up in full the said 75,000,000 shares of the Company.
- (f) On 8 April 2004, a total number of 339,465,640 shares were issued to the public at a premium of approximately HK\$1.65 (approximately 21 US cents) 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 23 April 2004, 90,536,000 shares were issued to the public at a premium of approximately HK\$1.65 (approximately 21 US cents) for cash totalling approximately US\$20,417,000 pursuant to the exercise of over-allotment option under the global offering of the Company's Shares.
- (h) On 19 March 2004, the Pre-IPO Share Option Scheme was approved and adopted by the Board. Certain senior management and Directors of the Company were granted options to subscribe for an aggregate of 6,300,000 new shares of the Company at the price paid by the public for the subscription of the Company's shares in connection with the Listing. A nominal consideration at HK\$1 was paid by the senior management and Directors for each lot of share options granted.

12 Commitments

(a) Capital commitment for property, plant and equipment

	Unaudited	Audited
	30 June	31 December
	2004	2003
	US\$'000	US\$'000
Contracted but not provided for	893	4,141

(b) Commitment under operating leases

At 30 June 2004, the Company and the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited	Audited
	30 June	31 December
	2004	2003
	US\$'000	US\$'000
Not later than one year	392	321
Later than one year and not later than five years	1,398	1,405
Later than five years	—	151
	1,790	1,877

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 15.

Respective responsibilities of Directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 July 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2004, the Group's turnover increased by 138% to US\$110.1 million, as compared with the same period in 2003. The growth was mainly due to the Group's success in gaining market share and marketing and sales of more colour display ICs. During the period, gross profit increased by 104% to US\$39.7 million. The Group's strategic decision to maintain a competitive pricing policy to expand market share, despite tighter production capacity worldwide and higher manufacturing costs, resulted in a decline in gross profit margin.

As a result of higher operational efficiency, the Group's net profit growth was higher than the turnover growth. Net profit increased by 140% to US\$22.9 million. As regards net profit margin, it was maintained at over 20%. In summary, the overall financial performance of the Group in the first six months of 2004 has exceeded that in the whole year of fiscal 2003.

Given its leadership position in the global display ICs market as well as its strong financial position, the Board resolved to declare a second dividend of 2.6 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 27 August 2004. The Board may declare further dividend in the second half of the year after taking into account the Group's operations, earnings, financial condition, cash requirements and availability and other factors as they may deem relevant at such time.

Financial Position and Liquidity

Net cash flow from operations during the period amounted to US\$19.5 million. The Group ended the period with US\$125.4 million of net cash (i.e. cash and cash equivalents less bank loans), of which approximately US\$91 million represented net proceeds from the Listing in April 2004. The Group intends to use the cash for its current and future product development, investment in securing capacity and general corporate purposes. As at 30 June 2004, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts.

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

Capital Expenditure

Capital expenditure for the period was approximately US\$6.1 million (2003: US\$1.6 million), the majority of which was spent on the purchase of critical packaging and testing equipment (in cooperative arrangement with contract manufacturers) for securing production capacity.

Capital Commitment and Contingent Liabilities

The Group had no material capital commitments or contingent liabilities as at 30 June 2004.

BUSINESS REVIEW

Book to Bill Ratio and Backlog

In the review period, the monthly book to bill ratio ranged from 1.1 to 1.8. The first half yearly ratio of 2004 was 1.4, indicating a strong growth of the Group's business in the second half of the year. As at 30 June 2004, the Group had abundant backlog orders on hand for shipment in the next few months.

Product Shipment

There were a number of factors that allowed the Group to leverage its competitive position and give rise to significant growth in shipment, namely introducing the right products at the right time, matching the strong demand for cellular phones and portable equipment as well as the industry's transition from monochrome to colour displays. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2004	1H 2003	Growth (%)	2003
Monochrome STN	28.0	20.2	39	44.6
Colour STN	28.8	7.0	311	20.2
OLED	7.2	1.5	380	6.2
Colour OLED	0.9	0.0	*	0.0
TFT	0.1	0.0	*	0.0
Miscellaneous	0.1	0.1	—	0.1
Total	65.1	28.8	126	71.1

Note: Miscellaneous includes graphic controller, PDA and others

Total shipment of display ICs in the review period was 65.1 million units, representing a growth of 126% against the same period last year. According to Gartner's forecast in June 2004, global shipments of cellular phones for 2004 are expected to exceed 600 million units. The Group believes about one out of six new cellular phones is using its proprietary display ICs.

Among its products, monochrome STN display ICs shipments grew by 39% to 28 million units during the review period. At the same time, colour STN (CSTN) display ICs recorded a strong momentum of growth. The shipment for the period reached 28.8 million units, an increase of 311% as compared to the same period in 2003. OLED display ICs also showed phenomenal growth, increasing by 380% year-on-year to 7.2 million units. The Group also began the mass production of colour OLED and mobile TFT display ICs, which are expected to contribute significantly to the Group's financial performance in the future.

Research and Development

In the past six months, the research and development costs accounted for roughly 4.5% of the Group's revenue. In order to reinforce its competitive position in the market, the Group will continue its focus on research and development. As at 30 June 2004, the Group had over 100 professionals in the design and engineering function, representing approximately 56% of the Group's total number of employees. In addition to driving the Group's technology advancement to 0.18 μ m for high integration graphic and multimedia processor, the research and development team was also designing a number of mixed mode IC products for mobile display, large display and new display. During the review period, mass production of a number of new CSTN, mobile TFT and colour OLED display ICs was commenced.

In April 2004, a Singapore Technology Center (SnpTC) was set up and as at 30 June 2004, 10 IC design and engineering professionals were recruited for the Singapore center. The professional team has an average of 10 years' relevant experience gained from multinational and domestic high-tech companies.

Significant Events

The most important event of the Group in the past 6 months was the Listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong. The Listing not only strengthened the Group's financial position, but also enhanced the Group's public profile and relationships with business partners. As a listed company, the Company will continue to increase its transparency to the investment community and strive to maintain a high standard of corporate governance.

Business Relationships

The Group's well-established relationships with display module makers and major end product brand names continued to form a strong foundation for its leading market position and future growth. Currently, it serves more than 50 global display module makers such as Alps, Arima Display, AUO, BYD, Giantplus, Hosiden, Hyundai LCD, Kopin, Nanya, NessDisplay, Optrex, Osram, Philips, Picvue, RiTdisplay, Samsung SDI, Sanyo, Sharp, Truly, Varitronix, Wintek etc.

The Group believes its display IC products are also used by global end product brand names, including Amosonic, BenQ, Bird, DBTEL, Eastom, LG, Liteon, Motorola, Panasonic, Pantech, Quanta, Samsung, Siemens, Sony Ericsson, TCL and UTStarcom.

Capacity Expansion

As compared to the corresponding period last year, the Group doubled its production capacity, through employing qualified additional subcontractors and production lines. To ensure sufficient wafer supply to meet increasing demand, the Group will continue to work with existing and new foundries on capacity increase and explore alternatives to secure wafer supply.

Human Resources

As at 30 June 2004, the total number of Group employees was close to 200, of which approximately 70% were based in its Hong Kong headquarters and the rest were located outside Hong Kong. To extend regional market presence and foster closer customer relationship, the Group set up a new office in Japan and a technology center in Singapore.

Remuneration of the Group's employees includes basic salaries and bonuses. The Group believes in incentivising, retaining and rewarding employees, and attracting new talent, through share based incentives which will align their interests with that of the Group. As described in greater detail in the Prospectus, there are four Pre-IPO schemes with grants or offers made prior to the Listing and no further awards or grants of options will be made or offered under them. There are two Post-IPO continuing schemes in place, namely Share Option Scheme and Share Award Plan. During the period from date of the Listing till 30 June 2004, there was no grant of options or award under the two schemes.

The Group also provides formal and informal training and development opportunities to all employees for the purpose of enhancing their professional capabilities and personal development.

As regards the salaries and compensation package of the Directors, they are governed by the Remuneration Committee.

BUSINESS PROSPECTS

The Group is optimistic about the outlook for advanced display IC solutions and its leadership in the market. With strong book to bill ratio, abundant backlog orders and successful marketing and sales of new products, the Group forecasts solid growth in the second half of the year.

Mobile Display

The Group sees strong demand for mobile display ICs as various mobile applications demand more displays and various display technologies differentiate the performance of end products. Furthermore, the gradual migration from monochrome to colour display and the integration of more functions and advanced features into display ICs will bring high value growth for the display IC market.

In light of these opportunities, the Group had responded by devoting more resources to speeding up the time-to-market of its colour display ICs. In the first half, the Group began mass production of colour OLED and TFT display ICs. At the same time, the Group is enlarging its product portfolios with more high value and multifunction display ICs.

The Group also witnessed an emerging potential for its graphic controllers, which have been designed for non-cellular phone type applications. As the Group advances in system integration, the revenue contribution from such controllers will increase.

Large Display

The Group believes that the demand for large flat panel display will increase, given the advent of digital broadcasting and the increasing popularity of flat panel TVs and LCD monitors. It has been working closely with several world-class large panel module manufacturers on new IC products. The products are under internal qualification and the first shipment is expected in the next 12 months.

New Display

New display such as micro display and e-paper are expected to enhance and create new applications, for example, electronic viewfinder and electronic signboard. The Group is cooperating with leading technology companies and realizing commercial applications. Such innovative applications using the latest display technology will soon be announced.

In summary, the Group will continue to focus on new product development, invest in securing capacity and build the necessary infrastructure to cope with the business growth. Backed by its experienced management team, the Group is confident of its ability to maintain its leadership position in display solutions and to create value for its shareholders.

DIRECTORS' INTEREST

As at 30 June 2004, the interests of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange are as follows:

(a) Long Positions in the shares and share options of the Company

- Ordinary shares of HK\$0.10 each in the Company

Name of Director	Number of Shares / Options			Total	Percentage of the Company's Issued Share Capital
	Directly Owned	Beneficially Owned	Note		
Chang Ching Yi Steven	6,600,000	—		6,600,000	0.26%
Choy Kwok Hung Patrick	1,000,000	—		1,000,000	0.04%
Huang Hsing Hua	8,100,000	10,450,000	1	18,550,000	0.74%
Kao Kuen Charles	500,000	—		500,000	0.02%
Lai Woon Ching	37,130,000	14,700,000	2	51,830,000	2.07%
Lam Pak Lee	70,800,000	—		70,800,000	2.83%
Leung Kwong Wai	53,800,001	69,400,000	3	123,200,001	4.92%
Lo Wai Ming	23,680,000	22,000,000	4	45,680,000	1.82%
Sun Patrick	500,000	—		500,000	0.02%
Wong Yuet Leung, Frankie	500,000	—		500,000	0.02%

Notes:

- (1) Out of the 10,450,000 shares held by Mr Huang:
- 3,200,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Huang under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004;
 - 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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004;
 - 2,500,000 shares are subject to a 2 year vesting period and held by HSBC Trustee for the benefit of Mr Huang under the pre-IPO share reward plan of the Company; and
 - 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 from 9 February 2004 to a date falling 12 months after the listing date of 8 April 2004.

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

- (2) Out of the 14,700,000 shares held by Mr Lai:
- (a) 4,000,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Lai under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004;
 - (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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004;
 - (c) 3,400,000 shares are subject to a 2 year vesting period and held by HSBC Trustee for the benefit of Mr Lai under the pre-IPO share reward plan of the Company; and
 - (d) 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 from 9 February 2004 to a date falling 12 months after the listing date of 8 April 2004.
- (3) Out of the 69,400,000 shares held by Mr Leung:
- (a) 12,000,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Leung under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004;
 - (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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004;
 - (c) 14,400,000 shares are subject to a 2 year vesting period and held by HSBC Trustee for the benefit of Mr Leung under the pre-IPO share reward plan of the Company; and
 - (d) 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 from 9 February 2004 to a date falling 12 months after the listing date of 8 April 2004.
- (4) Out of the 22,000,000 shares held by Mr Lo:
- (a) 7,200,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Lo under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004;
 - (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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004;
 - (c) 4,800,000 shares are subject to a 2 year vesting period and held by HSBC Trustee for the benefit of Mr Lo under the pre-IPO share reward plan of the Company; and
 - (d) 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 from 9 February 2004 to a date falling 12 months after the listing date of 8 April 2004.

(b) Short Positions in the shares of the Company

- Ordinary shares of HK\$0.10 each in the Company

Name of Director	Number of Shares			Total	Percentage of the Company's Issued Share Capital
	Directly Owned	Beneficially Owned	Note		
Huang Hsing Hua	—	3,950,000	5	3,950,000	0.16%
Lai Woon Ching	—	6,300,000	6	6,300,000	0.25%
Leung Kwong Wai	—	25,000,000	7	25,000,000	1.00%
Lo Wai Ming	—	10,200,000	8	10,200,000	0.40%

Notes:

- (5) Out of the 3,950,000 shares held by Mr Huang:
- 3,200,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Huang under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004; and
 - 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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004.
- (6) Out of the 6,300,000 shares held by Mr Lai:
- 4,000,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Lai under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004; and
 - 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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004.
- (7) Out of the 25,000,000 shares held by Mr Leung:
- 12,000,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Leung under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004; and
 - 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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004.
- (8) Out of the 10,200,000 shares held by Mr Lo:
- 7,200,000 shares are subject to a lock-up and held in custody by HSBC Trustee acting as custodian for the benefit of Mr Lo under the Pre-IPO Loyalty Plan for a period from the vesting date upto 4 years after the listing date of 8 April 2004; and
 - 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 from 23 December 2003 to a date falling 12 months after the listing date of 8 April 2004.

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

Save as disclosed above, as at 30 June 2004, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or of any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the interests of substantial shareholders as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"), other than directors or chief executives of the Company, in the shares and underlying shares of the Company, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Capacity	Long/Short Position	Number of Shares Held	Note	Percentage of Shareholding in the Company
Cardio Investments Limited	Trustee	Long	174,740,250	1	6.98%
		Short	174,740,250	1	6.98%
China Power Venture Capital Co., Ltd.	Beneficial owner	Long	151,980,000		6.30%
Global Vision Venture Capital Co., Ltd.	Beneficial owner	Long	151,980,000		6.30%
HSBC International Trustee Limited	Trustee/Interest by attribution	Long	244,393,520	3	9.76%
		Short	121,223,520	4	4.84%
Wintek Corporation	Attributable interest of controlled corporation	Long	139,000,000	2	5.80%

Notes:

- (1) 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.
- (2) 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.
- (3) Out of the 244,393,520 shares:
 - (a) HSBC International Trustee Limited is the trustee holding an aggregate of 121,393,520 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; and
 - (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 123,000,000 shares held by Extreme Performance Limited.
- (4) HSBC International Trustee Limited is the trustee holding an aggregate of 121,223,520 shares on trust for the beneficiaries under the pre-IPO Shares Reward Plan and the Share Award Plan adopted by the Company.

Save as disclosed above, the Company was not notified of any other interests or short positions in the shares or underlying shares of the Company as at 30 June 2004.

SHARE OPTION SCHEMES

On 19 March 2004, the Board adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") in compliance with Chapter 17 of the Listing Rules for the purpose of providing the participants with an opportunity to acquire proprietary interests in the Company and encouraging the participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The following table discloses details of options outstanding as at 30 June 2004 under the Pre-IPO Share Option Scheme and their movements during the period:

Name of Participant	Notes	Number of Share Options		
		As at 1 January 2004	Granted during the Period	As at 30 June 2004
Directors				
Chang Ching Yi, Steven	(a)	Nil	800,000	800,000
Choy Kwok Hung, Patrick	(a)	Nil	500,000	500,000
Huang Hsing Hua	(a)	Nil	300,000	300,000
Kao, Kuen Charles	(a)	Nil	500,000	500,000
Lai Woon Ching	(a)	Nil	300,000	300,000
Lam Pak Lee	(a)	Nil	800,000	800,000
Leung Kwong Wai	(a)	Nil	800,000	800,000
Lo Wai Ming	(a)	Nil	300,000	300,000
Sun, Patrick	(a)	Nil	500,000	500,000
Wong Yuet Leung, Frankie	(a)	Nil	500,000	500,000
Senior Management				
In aggregate	(a), (b)	Nil	1,000,000	1,000,000
Total			6,300,000	

Notes:

- (a) These options were granted on 19 March 2004, at an exercise price of HK\$1.75. The cash consideration paid by each director and employee for the options granted was HK\$1 per grant of options. The options may be exercised at any time commencing from 9 April 2005 to 10 April 2009. No options were lapsed, cancelled or exercised during the period.
- (b) Senior management members comprise Mr. Lin Hsin Yih and Ms. Lui Kit Har, Keziah.

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

Since the option was granted on 19 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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statements in respect of the value of options granted in the period. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

As at 30 June 2004, no option had been granted or agreed to be granted under the Share Option Scheme.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period from 8 April 2004 (the date of Listing) to 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the period from 8 April 2004 to 30 June 2004.

AUDIT COMMITTEE

The Audit Committee is composed of a majority of Independent Non-Executive Directors. The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial accounts for the six months ended 30 June 2004.

INVESTOR RELATIONS AND COMMUNICATIONS

The Company pursues a proactive policy of promoting investor relations and communications by holding regular meetings with institutional investors and analysts. In order to effectively disseminate the corporate information to interested parties, the Company maintains a website which is updated on a regular basis.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit to the Stock Exchange on 27 July 2004 the financial information required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules.

By Order of the Board

Solomon Systech (International) Limited

LEUNG Kwong Wai

Managing Director

Hong Kong, 27 July 2004

INFORMATION FOR INVESTORS

Financial Calendar

Announcement of interim results	27 July 2004
Book close day	25 - 27 August 2004
Payment of interim dividend	7 September 2004
Financial year end	31 December

Shareholder Enquires

Share transfer and registration	Tricor Investor Services Limited Ground Floor BEA Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Enquiries from investors and securities analysts	Ms Yvonne Chan Corporate Communications Manager Solomon Systech (International) Limited 6/F., No.3 Science Park East Avenue Hong Kong Science Park Shatin, N.T. Hong Kong Ms Veron Ng Account Director Strategic Financial Relations Limited Unit A, 29/F, Admiralty Centre I 18 Harcourt Road Hong Kong

Share Listing

Solomon Systech (International) Limited's shares are listed on Main Board of the Stock Exchange of Hong Kong Limited on 8 April 2004 with a stock code: 2878.

Website

www.solomon-systech.com