Solomon Systech (International) Limited
HKSE : 2878
Annual Report 2005

SOLOMON
SYSTECH

SOLOMON SYSTECH GROWING FROM STRENGTH TO STRENGTH

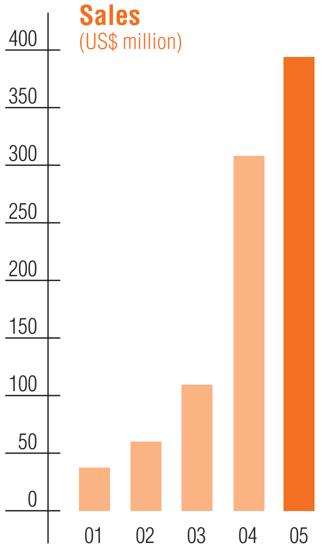
WE MAKE MORE THINGS HAPPEN

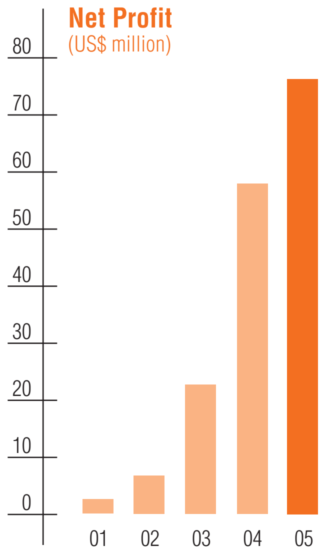
solutions in silicon

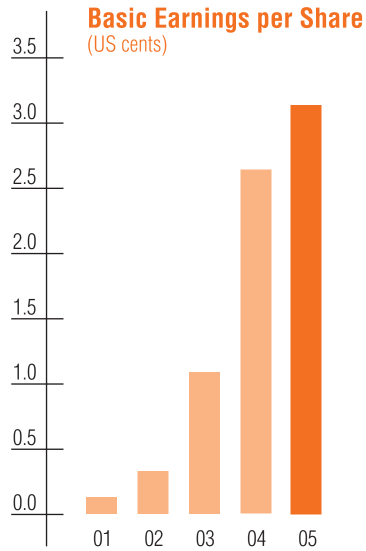
Financial Highlights

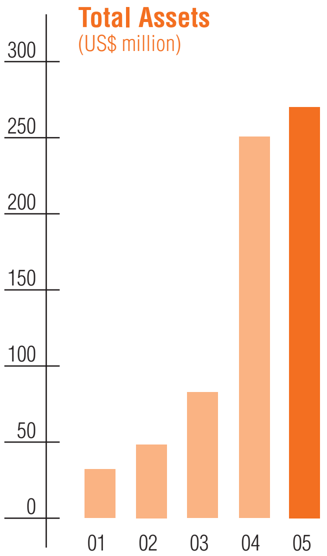
- **Sales grew by 28% to US$394 million attributable to strong unit shipment growth of the Group's new display ICs products**
- **Net profit grew by 32% to US$76.3 million**
- **Earnings per share was 3.12 US cents (24.3 HK cents), an increase of 19%**
- **The Board proposed a final dividend per share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

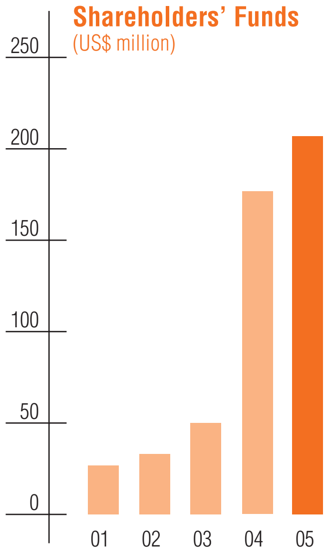
	2005 US$ million	Restated 2004 US$ million	Change
Sales	394.1	308.2	+28%
Gross profit	119.6	96.6	+24%
Net profit	76.3	57.9	+32%
Total assets	270.3	250.1	+8%
Shareholders' funds	207.0	176.8	+17%
US cents			
Earnings per share	3.12	2.63	+19%
Dividends per share	2.44	1.88	+30%

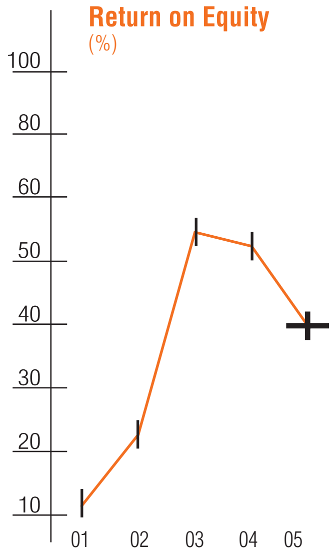












Note: Return on equity is calculated by dividing the net profit for the year by simple average of shareholders' funds at the beginning and end of the year.

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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.

The Group has an experienced design team of high caliber in Mixed Mode High Voltage System-On-Chip (HV-SoC) and Very Large Scale Integration (VLSI) design, and produces highly integrated IC products for all current mainstream display technologies. Such IC products include STN/CSTN/TFT LCD driver controllers, OLED driver controllers, graphics controllers and image processors for mobile displays, TFT drivers and timing controllers for large displays.

Currently being a global market leader in mobile phone display ICs, the Group is developing ICs in new display areas for high-tech consumer electronic products such as microdisplay for mobile video applications and bistable display for electronic paper applications. Thanks to its ability to quickly and successfully commercialize new product ideas, the Group has a competitive edge over its rivals in the fast-moving flat panel display area.

The Group serves many blue-chip clients and has received numerous awards from its customers, suppliers, industrial organizations as well as the investment community. In April 2004, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (HKSE: 2878). As of end of 2005, it had a workforce of approximately 320 employees.

WE ACHIEVE

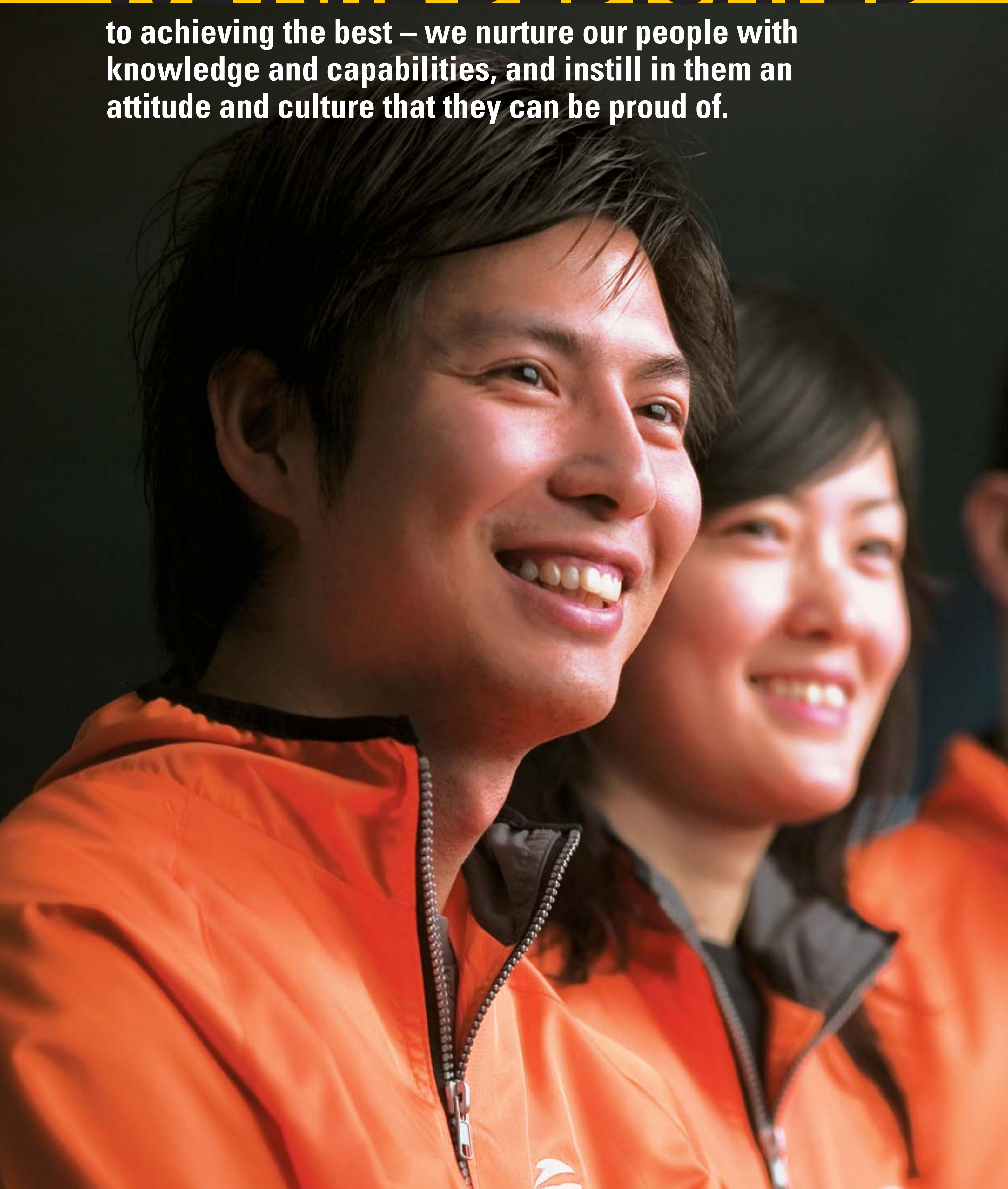
continuous growth in market share – we deliver products that benefit people around the world.

WE INSPIRE

people with new lifestyle dimensions – we create by blending new ideas with innovative technologies.

WE ARE DEDICATED

to achieving the best – we nurture our people with knowledge and capabilities, and instill in them an attitude and culture that they can be proud of.



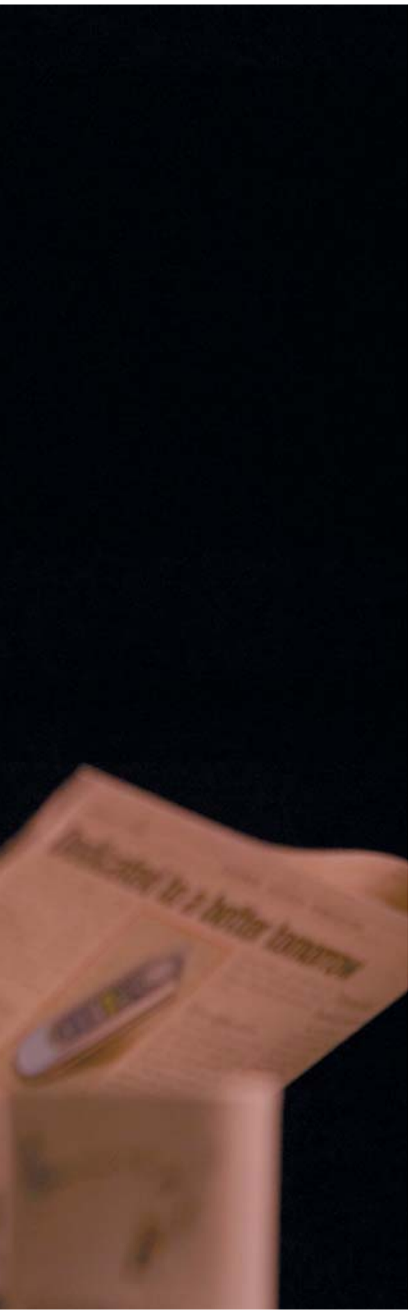
WE CARE

about the environment and the world – we act to bring a better tomorrow to our community.

Chairman's Statement

LAM Pak Lee, Barry
Chairman

The success of a business, in my opinion, relies on three elements namely vision, commitment and perseverance.



As you may be aware that I am a patron of Chinese fine art, and I am also fortunate to be heavily involved in science and technology in my career. With this background, I would like to share with you my view on the relationship between science and business.

I believe everybody has probably heard of Albert Einstein, possibly the best ever physicist, who together with Niels Bohr and Werner Heisenberg contributed to the developments of quantum theory back in the 1910s. Despite being one of the pioneers, Einstein seemingly did not agree with the probabilistic nature behind the theory. However about twenty years later, he eventually accepted the great quantum theory was about probability.

In contrast, running a successful business cannot entirely depend on probability. To me, success is not simply about luck. Instead, the success of a business, in my opinion, relies on three elements namely vision, commitment and perseverance. Frankly speaking, luck helps to some extent but it is definitely not a determining factor.

Value Accretion

For a newly listed company, investors will primarily evaluate the company based on financial performance. Over time, it is the management's responsibility to deliver more than just financial returns. As the Chairman of the Group[1], I would like to see the Group's share price increase gradually at the accretion of the Group's sound financial track record, sustainable business growth, high corporate governance standard and good corporate citizenship. And I am pleased to see the Group making progress in the right directions.

The Group's unit shipment grew by 68% in 2005. Compared with the growth of mobile phone market in the corresponding period of 14% *(Source: iSuppli)*, the growth of the Group's business was indeed admirable. Net profit in 2005 also increased by 32% to US$76 million. The Group's strong performance was attributable to the successful business ramp-up of new products. As a whole, the Group's global market share in mobile display ICs has exceeded 20%.

In 2005, the Group's share price grew by 68%. EPS growth was also up 19% to HK$0.24 per share. Total dividend payout was as high as 80% of earnings, representing a yield of 7.3%[2]. The Group will periodically review its expansion plans and cash position so as to achieve an optimal capital structure that balances the interest of shareholders and the business needs of the Group.

1. Solomon Systech (International) Limited refers to "Solomon Systech" or the "Company". The "Group" refers to the Company and its subsidiaries, and where the context requires, means any member or members of the Group.
2. Using the average daily closing price of the Company for 2005, which was HK$2.60, in the calculation of dividend yield.

The Group always meets the latest enviromental requirements in conducting its business. Now, all the Group's products are RoHS[3] compliant. In addition, the Group dedicated itself to making the society more "green" and sustainable. A noteworthy initiative of the Group was the "Ocean's 10" Project, a 3-year sponsorship for the WWF. Through this activity, the Group aims to arouse its employees' interest of what a socially responsible company is.

Corporate Governance

The Managing Director of the Group and other senior executives bear the primary responsibility of running the business while myself and other non-executive directors monitor the performance and business strategy of the Group and ensure that effective corporate governance practices are always in place and implemented.

The Board currently comprises 10 directors, of which 4 are executive, 3 non-executive and 3 independent non-executive. In addition to the Audit Committee and Remuneration Committee, a Nomination Committee and an Investment Committee were formed during the year with respective terms of reference approved by the Board. Going forward, the Board considers appointing additional members with relevant industry or professional background.

In 2005, the Group was in compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Following the code provisions of Appendix 14 of the Listing Rules, the Group made its own dealing guidelines for "relevant employees" that included key department heads. In order to help the Board function more effectively, the Group set a policy to sponsor educational trainings for directors, and started to benchmark the remuneration of non-executive directors against that of well-managed companies.

3 . An European Union's Directive of Restriction on Hazardous Substances (2002/95/EC), which became European Law in February 2003 and will go into effect on 1 July 2006, restricts the use of six hazardous materials (lead, mercury, cadmium, chromium VI, PBB and PBDE) in the manufacture of various types of electronic and electrical equipment.

Prospects

In dollar terms, the semiconductor industry and the mobile phone market recorded a growth of 6.6% and 7.9% respectively in 2005 *(Sources: SIA and Gartner)*. For 2006, the respective growths are forecast to be 8.0% and 5.0%. In the coming year, the Group will introduce more new products to address the high-growth segments of the display sector.

According to the products roadmap of the Group, display system ICs will be launched in addition to existing display panel ICs. The penetration into these new areas will offer the Group more business opportunities and will speed up the Group's learning curve. In this competitive market, it is paramount to stay ahead of technology frontiers.

In the coming year, I will be comfortable with the developments of the Group as well as the execution capability of the management team. There may be some challenges ahead such as pricing pressure, unstable wafer prices and existent competition. However, I see the management has a very clear vision as to what to achieve, for instance, building a strong financial track record, maintaining a sustainable business growth and caring about the society. I strongly believe that the management will make myself and other shareholders satisfied with their performance in the years to come.

LAM Pak Lee
Chairman

Managing Director's Chat Room

LEUNG Kwong Wai, Humphrey
Managing Director

How do you comment on the Group's performance in 2005?

- In 2005, we achieved distinction in many aspects that go beyond products and financial performance. I would say that we made more things happen, with record high net profit. We gained market share in mobile display IC area and started mass production of large display ICs. New products with innovative technology, like microdisplay and bistable display, were introduced that inspired people to view the world in a new dimension. We were dedicated to developing employees with the right company culture. Last but not least, we cared about the society with environmental protection projects as well as other philanthropic activities.

Could you share with us your philosophy of running a global business?

- As the Managing Director of the Group, I always have to see the intricacies of business and come up with a solution with impact. Therefore, I follow three logical steps, namely vision, execution and "built to last", to run the Group's business.

  First of all, I need to establish the vision with key principles and directions of business, based on the wisdom of anticipating the dynamics of changes. After rounds of discussion and refinement, I have to make sure the vision is communicated clearly.

Regarding execution, we need to tactfully prioritize and allocate resources as there are numerous ever-changing factors coming in that will affect our original plans.

"Built to last" is something that we plan for the future. At this point in time, we want to build solid foundation for the Group to expand into the future. The foundation includes the customer base, quality of our employees, the company's culture, core competences and so on.

? People always say that "it is easier said than done". How could you ensure the Group's plans are executed rightly?

■ Yes, execution sometimes comes with moments of indecision. For a manager, every day he faces problems and difficult people, and the manager has to lead and make tough decisions.

Further, the outcome of execution has to be measured and be rewarded accordingly. All the Group's major plans start with SMART[4] goals and have clear ownership. Agreed goals will be conveyed to those responsible, and scoreboard and results will be reviewed regularly. In this way, I can ensure that the Group's plans are executed rightly and timely.

4. SMART stands for Specific, Measurable, Achievable, Relevant and Time-bound.

? "Built to last" sounds interesting, in fact what elements are there?

- "Built to last" is a systematic approach to develop the Group in the long term in respect of its business integrity, core competences, culture and employees' attitude. In pursuing these long-term objectives, we need to strike a balance between long term principles and short-term performance of the Group, and to plan wisely for the resources allocation.

  Furthermore, in order to be successful in the marketplace, the Group has to establish its own practices of business and instill the right attitude in its employees that can make the Group competitive and respectful in the industry. Ultimately, such practices will become the culture of the company.

? The annual report states "growing from strength to strength". What are the Group's strengths now and where does it aim to excel in the future?

- I think it is widely known that the Group has a dominant position in the mobile display IC area, having more than 20% global market share that was built within a few years. In the future, I would like to see the Group in the top 3 in the world for the overall display driver IC market.

  Before the Group can achieve that position, it needs to excel in the large display IC area, whose current global market size is more than US$2.5 billion a year. In addition, the Group's direction is to develop more new display ICs, namely bistable display, microdisplay, LED ICs and display system ICs for the high volume market.

  In short, the Group will provide total display IC solutions for various market applications and aims to excel in both display panel area and display system area.

2005 Awards

Corporate Level:

Dec	Caring Company Award – The Hong Kong Council of Social Service
Sep	Best of Hong Kong, 19th Annual International ARC Awards – MerComm, Inc.
Mar	Employer Of The Year Award – JobsDB.com

Financial Performance:

Dec	Red Herring Global Small Cap 100 – Red Herring
Dec	Outstanding Financial Performance by a Public Fabless Company Award – FSA
Oct	Honorable mention, Grand Prix for Best Overall Investor Relations – Small to Mid-Cap, IR Magazine Awards 2005 – IR Magazine

Technological Innovation:

Dec	Deloitte Technology Fast 500 Asia Pacific (ranked: 121) – Deloitte Touche Tohmatsu
Nov	Deloitte Technology Fast 50 China (ranked: 26) – Deloitte Touche Tohmatsu
Oct	Leading Product Winner (Analog & Mixed Signal ICs), EDN China Innovation Award 2005 – EDN China
Oct	Grand Award and Gold Award for Outstanding Innovation and Technology Products – Hong Kong Electronic Industries Association

Profile of Senior Management

Non-executive Chairman

Dr. LAM Pak Lee, aged 56, 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 Dr. Lam's distinguished leadership, Quanta Computer is now the largest notebook computer manufacturer in the world with revenue exceeding US$10 billion a year. In both 1999 and 2001, Dr. 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.

In recognition of his contribution to the technology industry, he was conferred an Honorary Degree of Doctor of Technology by the Hong Kong Polytechnic University in 2005.

Front row from right:
Dr. LAM Pak Lee;
Mr. LEUNG Kwong Wai;
Mrs. FUNG Lui Kit Har, Keziah

Back row from right:
Mr. WONG Yuet Leung, Frankie;
Professor KAO Kuen, Charles;
Mr. CHOY Kwok Hung, Patrick;
Mr. SUN, Patrick

Managing Director

Mr. LEUNG Kwong Wai, aged 49, 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. Currently, he is Director of the Society of Information Display, Hong Kong Chapter, Vice-Chairman of the Hong Kong Electronic Industries Association, Vice President of Hong Kong Semiconductor Industry Council and an executive committee member of the Hong Kong Electronics Industry Council of the Federation of Hong Kong Industries. Mr. Leung received the Young Industrialist Award of Hong Kong in 2001, the Outstanding Polytechnic University Alumni Award in 2003 and the Outstanding Achievement Award in the 10 Years' China IC Design Industry Development in 2004.

Front row from left:
Mr. HUANG Hsing Hua;
Mr. LAI Woon Ching;
Mr. LO Wai Ming

Back row from left:
Mr. CHANG Ching Yi, Steven;
Dr. LAI Wai Yan, Stephen;
Dr. YEH Chao Pin;
Mr. KUNG Tat Wing

Executive Directors

Mr. HUANG Hsing Hua, aged 47, has been the Sales Director of the Group since 2003 and is currently responsible for sales, market development and field applications support. He has over 25 years of working experience in the electronics industry. Prior to joining the Group, he worked at Solomon Technology Corp. and spent 11 years at Motorola Electronics Taiwan Limited covering functions such as product operation, product marketing, business planning and sales.

Mr. LAI Woon Ching, aged 52, has been the Quality and Manufacturing Director of the Group since its inception in 1999 and is responsible for quality assurance, subcontractor management and manufacturing technology. He has over 29 years of engineering and factory management experience with expertise in IC production and testing. Prior to joining the Group, he was Senior Quality Manager of Motorola Semiconductors Hong Kong Limited.

Mr. LO Wai Ming, aged 43, has been the Business Operations Director of the Group since its inception in 1999 and is responsible for product and business development. He has 19 years of working experience in the semiconductor industry with a focus on new product and business development. Prior to joining the Group, he was the Business Operations Manager at Motorola Semiconductors Hong Kong Limited.

Non-executive Directors

Mr. CHANG Ching Yi, Steven, aged 45, Founder and Chairman / CEO of The CID Group ("CID"), has 15 years of experience in managing investments in the semiconductor industry. The CID Group is a leading venture capital and private equity firm, focusing on the Greater China region. CID has invested in over 75 companies across a wide range of industries, including IC design, TFT-LCD, wireless communications, storage technologies, electronic materials, auto parts and others.

Mr. WONG Yuet Leung, Frankie, aged 57, Managing Director of Shui On Holdings Ltd. and also CEO of Shui On Construction and Materials Limited (HKSE: 983), has 30 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.

Independent Non-executive Directors

Mr. CHOY Kwok Hung, Patrick, aged 63, 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 Keppel Corporation Limited 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 of Tianjin CPPCC and a Vice President of the World Bridge Federation (WBF) as well as the WBF Ambassador to Asia. In 2001, he received an award from the International Olympic Committee recognizing his remarkable contribution to the development of Sport and Olympism.

Mr. SUN, Patrick, aged 47, a member of the Hong Kong Institute of Certified Public Accountants, is currently an Executive Director of SW Kingsway Capital Holdings Limited (HKSE: 188), and Chairman of the Global Strategy Committee of Kingsway International Holdings Limited (TSX: KIH). 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 72, 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 48 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 59, 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 in semiconductors, which include technology and product development and management, systems and circuits design, 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.

Mrs. FUNG Lui Kit Har, Keziah, aged 45, joined the Group in 2000 as Finance Director and is responsible for accounting, financial management, internal controls, credit control and treasury. She has over 20 years of experience, with a focus on financial management and control. Mrs. Fung was appointed as the Company Secretary on 3 February 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. Mrs. Fung 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) Limited, a division of Philips Passive Components from 1997 to 1999.

Mr. KUNG Tat Wing, aged 45, joined the Group in 2005 as Business Operations Director, is responsible for product and business development. Mr. Kung has over 20 years of experience in the 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.

Dr. YEH Chao Pin, aged 50, joined the Group in 2005 as China Operations Director and is responsible for the Group's overall operations and business in China. He has over 20 years of experience in managing semiconductor R&D, product development and business operations. Dr. Yeh was the adjunct professor of Tianjin University of China. Prior to joining the Group, Dr. Yeh was the President of Innois Technology (Suzhou) and previously served a number of international corporations including Motorola and IBM. He also published more than 70 conference or journal papers and was awarded 7 US patents in the area of electronic packaging and known-good-die testing.

Management Discussion and Analysis

Overview

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

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

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

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

1.

2.

3.

1. Having more than 20% global market share in the mobile display ICs area, the Group has all major mobile phone brand names as its end customers. It is noteworthy that Motorola employs the Group's mobile TFT (m-TFT) display ICs in its best selling RAZR V3 mobile phone series.

2. Sony and Creative are new customers using the Group's OLED IC in their MP3 players.

3. The Group started mass production of its large display ICs in 2005. Quanta Display Inc. was its first significant customer.

Service, Red Herring, Deloitte Touche Tohmatsu, Fabless Semiconductor Association, Hong Kong Electronic Industries Association and EDN China.

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

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

Financial Review

5-year Financial Summary

US$ million	2005	Restated[v] 2004	2003	2002	2001
Sales	394.1	308.2	109.3	60.0	37.5
Gross profit	119.6	96.6	46.0	20.9	12.3
Net profit	76.3	57.9	22.7	6.8	2.7
Assets and liabilities					
Total assets	270.3	250.1	81.6	48.5	32.1
Total liabilities	(63.3)	(73.4)	(31.7)	(15.1)	(5.5)
Shareholders' funds	207.0	176.8	49.9	33.4	26.6
US cents					
Earnings per share					
Basic[i]	3.12	2.63	1.09	0.33	0.13
Diluted[ii]	3.08	2.50	NA	NA	NA
Dividends per share	2.44	1.88[iii]	0.85[iii]	3.40[iv]	–
Net asset per share[i]	8.47	8.02	2.41	1.61	1.33

The Company was incorporated on 21 November 2003. The financial information for the year 2001 to 2003 has been prepared using the merger basis of accounting regarding the Group comprising the Company and its subsidiaries as a continuing entity.

i 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, 2,204,501,037, and 2,445,135,773 ordinary shares in issue during each of the years ended 31 December 2001, 2002, 2003, 2004 and 2005, 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. For 2004 and 2005, the number is based on the weighted average of ordinary shares in issue excluding own shares held during the year.

ii The diluted earnings per share information was not presented for each of the years ended 31 December 2001, 2002 and 2003 as there were no dilutive potential ordinary shares. For 2004 and 2005, the diluted earnings per share information is based on 2,320,846,751 and 2,473,217,108 ordinary shares respectively, which are the adjusted weighted average number of ordinary shares outstanding to assume conversion of all share options outstanding but excluding unallocated own shares held during the year.

iii As the first interim dividend of 2004 paid on 1 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.

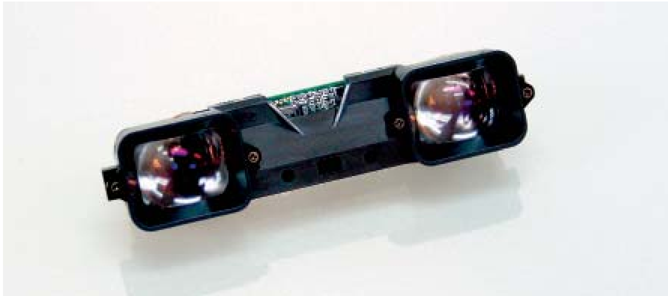
iv The dividend was paid by Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholders during the year. The number of SSL's shares in issue at the time of the payment was 183,290,271 shares.

v The results for 2004 and the assets and liabilities as at 31 December 2004 have been restated to reflect the adoption of the new / revised standards and interpretation of Hong Kong Financial Reporting Standards as set out in note 2.1 to the financial statements.

The Group started to promote the Binocular Display Module ("BDM", as shown in picture), which is a complete video subsystem for eyewear that empowered by the Group's microdisplay ICs. The BDM realizes "Video On-the-Go" technology and provides large image that equivalent to a 35-inch TV at a distance of 7 feet, but weighs only less than 1 oz.

Sales and profit

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



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

Liquidity and financial resources

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

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

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

Capital expenditure and contingent liabilities

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

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

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

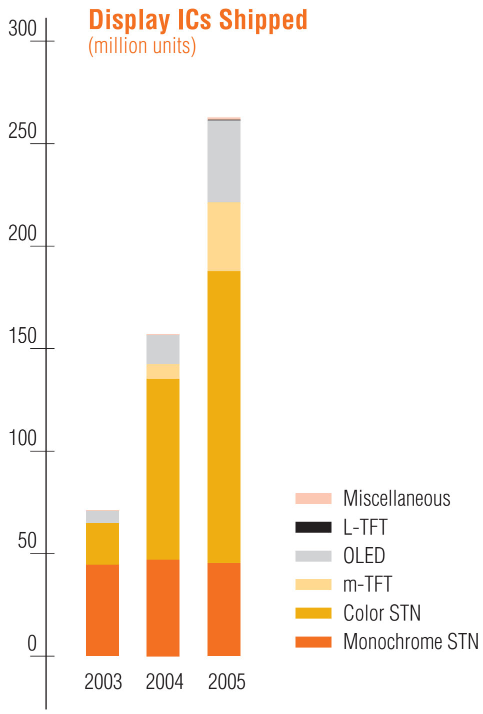
Business Review

Products shipment

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

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

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



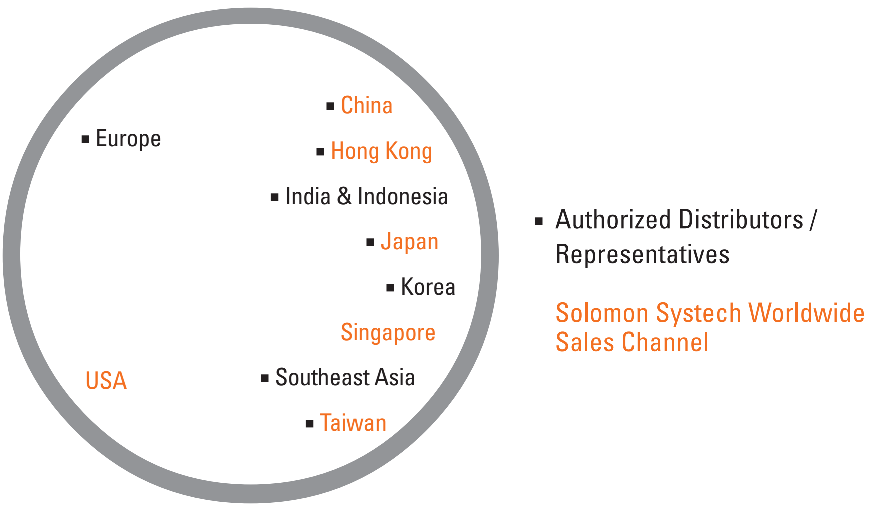
Exhibition / conference	Location	Date
The 10th Annual International IC – China Conference & Exhibition	Shenzhen / Shanghai	4–5 April / 12– 14 April
OLEDs Asia 2005, Intertech Conferences	Seoul	18–20 April
SID 2005	Boston	24–26 May
International Symposium on Consumer Electronics 2005	Macau	14–16 June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

New products and customers

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

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

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



1. Twenty-seven new IC products went into production in 2005, supplied directly to module makers and eventually used by global mobile phone brand names and in other portable applications.

2. The Group has a high caliber and experienced design team. It ensures the delivery of high performance ICs that exceed customers' expectation. The picture shows the large display ICs being evaluated at the display panel.

3. The Group's efforts in R&D will ultimately allow it to capture more business opportunities and stay ahead of technology frontiers. The picture shows a mobile display IC being verified.

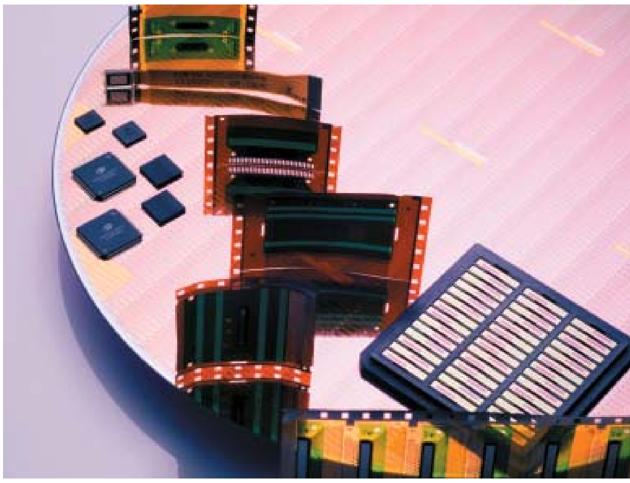
The Group believes that all major global mobile phone brand names are using or have started to use the Group's display ICs. In the non-mobile phone area, the Group also introduced a number of key products that won industry awards. For instance, the Group's microdisplay controller IC (part number SSD1502)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

Research and development

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

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

The Group's existing and future products are supported by 3 technology centers, namely Hong Kong, Shenzhen and Singapore. The research



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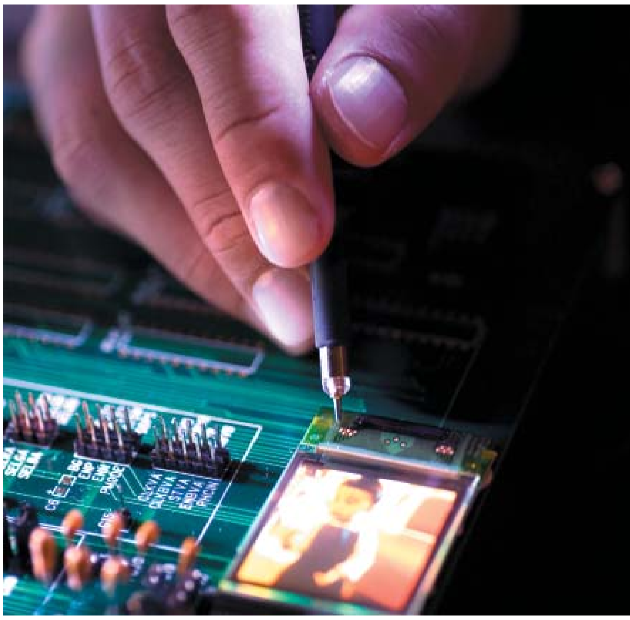

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and development team in Hong Kong provides a full range of product developments, while the Shenzhen operation takes on special projects and the Singapore operation focuses on multimedia ICs and IP development.

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

Prospects

Display Panel Area

Mobile display

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

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

Large display

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

Right now, the total market size for large display driver ICs is more than US$2.5 billion a year. This is a potentially large enough market for the Group to line up more resources with the purpose of gaining market share and achieving continuous revenue growth. Apart from Quanta Display Inc., the Group plans to acquire a few more customers in the region. As mentioned previously, the Group's dual intentions with regard to the large display area are (1) to bring in long-term revenue growth and (2) to make a foray into high-value ICs associated with LCD TV.

New display

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

1. To provide total display IC solutions, the Group entered the display system area and developed new IC products such as the image processor SSD1921.

2. Flexible or bistable displays can be applied in electronic paper applications such as label-tag, timepiece and e-book. The Group sees potentially great new demand for the new displays in different applications.

3. Microdisplay ICs, integrated into plug-and-play display modules, enable innovative applications such as mobile entertainment, cellular accessories and 3-D gaming.

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

Display System Area

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

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

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Corporate Governance Report

The corporate governance practices weigh heavily on the Group's success. And it is the very responsibility of the management to proactively observe the latest corporate governance developments in Hong Kong and overseas, particularly the UK and USA. Throughout the year, the Group complied with the applicable Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Code"), and there was no deviation from the Code provisions except that the Article 112 of the Articles of Association of the Company provides that the Managing Director shall not be subject to rotation at the annual general meeting.

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. Schedule of matters reserved for the Board include:

- Strategy and management
- Group structure and capital
- Financial reporting and control
- Internal controls
- Contracts
- Communication
- Board membership and other appointments
- Remuneration
- Authority and delegation
- Corporate governance
- Policies
- Others

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 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 for 2005 is as follows:

Number of meetings	**7**	
Members of the Board	**Meetings attended**	**Attendance rate**
Chairman		
LAM Pak Lee	7	100%
Executive directors		
LEUNG Kwong Wai	7	100%
HUANG Hsing Hua	6	86%
LAI Woon Ching	7	100%
LO Wai Ming	7	100%
Non-executive directors		
CHANG Ching Yi, Steven	7	100%
WONG Yuet Leung, Frankie	7	100%
Independent non-executive directors		
CHOY Kwok Hung, Patrick	6	86%
SUN, Patrick	7	100%
KAO Kuen, Charles	4	57%
Average attendance rate		**93%**

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the Financial Statements of the annual and interim reports. The Directors have prepared the Financial Statements on a going concern basis, with supporting assumptions or qualifications as necessary. When the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties will be clearly and prominently set out and discussed at length in this Corporate Governance Report.

Chairman

The Chairman of the Board, Dr. LAM Pak Lee, 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. Specifically, he was assigned with four key roles to perform, namely leading the Board, advising on the Group's key strategies, ensuring the Group's effective communication to the stakeholders and implementing a high level of standard in corporate governance.

Managing Director

The Managing Director, Mr. LEUNG Kwong Wai, 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 a 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 bi-weekly 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

Normally before each Board meeting, non-executive directors will have a private discussion with the non-executive Chairman on the Group's matters without the presence of executive directors, including the Managing Director. In addition, non-executive directors, according to the Group's policy, can have access to Group's employees at anytime that they think appropriate. Each of the non-executive directors (including independent non-executive directors) of the Company entered into a service contract with the Company that will expire on 30 June 2006. The first reappointment dates of each of their appointments are as follows:

	First reappointment date
Non-executive director	
CHANG Ching Yi, Steven	21 November 2004
WONG Yuet Leung, Frankie	3 February 2005
LAM Pak Lee	25 February 2005
Independent non-executive director	
CHOY Kwok Hung, Patrick	25 February 2005
SUN, Patrick	25 February 2005
KAO Kuen, Charles	15 March 2005

Audit Committee

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

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

The authorities of the Audit Committee include (1) investigating 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 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:

Number of meetings	**3**	
Members of the Audit Committe	**Meetings attended**	**Attendance rate**
SUN, Patrick	3	100%
CHOY Kwok Hung, Patrick	3	100%
WONG Yuet Leung, Frankie	3	100%
Average attendance rate		**100%**

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 Note 7 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises one non-executive director (also the Chair of the Committee) and two independent non-executive directors. A majority of the votes in the Remuneration Committee are exercisable by independent non-executive directors. The Committee does not deal with the remuneration of non-executive directors which shall be a matter for the Chairman and executive directors of the Board. No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The Remuneration Committee also consults the non-executive Chairman about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

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 main duties of the Committee are as follows:

- To determine the framework and broad policy for the remuneration of the Chairman, Managing Director and executive directors
- To approve remuneration package to any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate the relevant responsibility and to receive adequately detailed reports of all exercises of such delegated responsibility
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To ensure the contractual terms on termination with senior executives and any payments thereof are fair to the individual and the Group
- To give due regard to legal requirements, tax provisions and recommendations of the Listing Rules and guidelines in respect of remuneration package for senior executives
- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies
- To report to the Board on its proceedings after each meeting

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

Number of meetings	**4**	
Members of the Remuneration Committee	**Meetings attended**	**Attendance rate**
CHANG Ching Yi, Steven	4	100%
CHOY Kwok Hung, Patrick	3	75%
SUN, Patrick	4	100%
Average attendance rate		**92%**

In 2005, 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. Details of remuneration of directors can be obtained in the section of Financial Statements.

Nomination Committee

The Nomination Committee comprises the non-executive Chairman (also the Chair of the Committee), the Managing Director and one non-executive director. The meeting of the Nomination Committee shall meet before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, currently chaired by Dr. LAM Pak Lee, will identify qualified candidates to fill the 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 main duties of the Committee are as follows:

- To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
- To evaluate the balance of skills, knowledge and experience of the Board
- To identify and nominate any candidate for the Board's approval
- To review the leadership needs and succession plans of the Group in relation to both directors and senior executives
- To make recommendations for the appointment and removal of the Chairman, Managing Director or any director
- To make recommendations to the Board on the re-appointment of any non-executive director at the conclusion of his specified term of office
- To report to the Board on its proceedings after each meeting

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

Number of meetings	**1**	
Members of the Nomination Committee	**Meetings attended**	**Attendance rate**
LAM Pak Lee	1	100%
CHANG Ching Yi, Steven	1	100%
LEUNG Kwong Wai	1	100%
Average attendance rate		**100%**

The Nomination Committee held one meeting in 2005. It reviewed the composition of the Board and considered that the Group might need additional independent non-executive directors, whom should be experienced in the Group's business or should possess professional qualification.

Investment Committee

The Investment Committee comprises three executive directors (Managing Director currently being the Chair) and one non-executive director. The meeting of the Investment Committee shall meet at the request of any member of the Committee and will normally be joined by the Group's finance director and head of corporate development.

The Investment Committee, currently chaired by Mr. LEUNG Kwong Wai, will evaluate and approve any equity investment of US$5 million or less with the support of corporate development division. Any equity investment exceeding that amount will be proposed by the Committee for the Board's approval. The Committee is authorized, at the expense of the Group, to take such external professional advice as it considers necessary and to arrange such advisers to attend meetings.

The main duties of the Committee are as follows:

- To assist the Board in discharging its duties and responsibilities in relation to investment activities (excluding treasury or cash management)
- To assist the Board with all of its policy setting responsibilities related to investments
- To establish and document the basic investment principles and beliefs held by the Committee as well as the Code of Ethics for avoiding possible conflict of interest
- To have all necessary access and authority to seek information from management to fulfill its objectives, duties and responsibilities
- To review the appointment of external professional advisers
- To review and monitor investment performance
- To review and advise on additions to and dispositions of existing investments
- To review annually terms of reference of the Committee and to recommend to the Board any required changes
- To submit an annual work report to the Board summarizing the Committee's activities, findings, recommendations and results for the past year

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

Number of meetings	**1**	
Members of the Investment Committee	**Meetings attended**	**Attendance rate**
LEUNG Kwong Wai	1	100%
LO Wai Ming	1	100%
LAI Woon Ching	1	100%
CHOY Kwok Hung, Patrick	0	0%
Average attendance rate		**75%**

The Investment Committee was established in late November and held one meeting in 2005. With more than 20 investment cases studied by the corporate development division, the Committee decided to further study the merits of an investment case.

Others

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.

During 2005, the Audit Committee conducted a review of the Group's system of internal control and was satisfied that the Group complied with the code provisions of the Code.

Model Code and Code of Conduct

The Group made specific enquiry of all directors as to whether they complied with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) regarding their securities transactions. It was confirmed that there was full compliance. As regards the shares held by directors, the details are listed in the section of Report of the Directors. Pursuant to Appendix 14 paragraph A.5.4, the Group established its own written guidelines on no less exacting terms than the Model Code for employees likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company. All relevant employees conformed to the Group's own guidelines throughout the year 2005.

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 of Conduct 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 its 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 Group's management has 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. In 2005, the Group made its first annual results announcement and the second interim results announcement. The management interacted directly with investors, analysts and the media, providing them with insightful information and answering all their queries. Also, on 8 April 2005, the 2005 annual general meeting of the Group was held at Island Shangri-La hotel, Hong Kong at 4:00pm. During said the annual general meeting, the following items were discussed:

- Report of the Directors and Auditors' Report
- Final dividend
- Election of directors
- Authorization to fix the directors' remuneration
- Appointment of Auditors
- Authorization to repurchase the Group's shares
- General mandate to issue the Group's shares
- Extension of the general mandate

All resolutions relating to the above items were passed unanimously without any single vote cast against.

For the year under review, the Group conducted 133 investor or analyst meetings, and 41 conference calls with them. On average, the Group had 4.2 meetings or conference calls with the investment community per week. Adding to this busy schedule was the participation in 4 non-deal roadshows in locations like Hong Kong, Singapore, Tokyo, London, New York, Boston and San Francisco, and 6 investor related functions such as corporate days, conferences or luncheons.

As part of the Group's efforts to promote its image and publicity, the Group also leverages the networks and experience of a public relations firm. During 2005, a total of 37 media interviews were conducted on TV and radio, in 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, since listing the Group has been collecting ideas from shareholders and feedback from the investment community. The Group also appreciates the opportunity to meet its shareholders face-to-face.

There was no change in the Company's Articles of Association for 2005. To the best knowledge of the Group, as of 31 December 2005, there were 4 institutional investors holding more than 23% of the Company's shares. Another 4% or so shareholding was held by one of the original venture capital shareholders. The shareholding of the Board together held roughly 9% of the Company's shares. The remainder of the shareholding, approximately 63%, is believed to be in public hands.

The website of the Group (www.solomon-systech.com) is also updated constantly to inform the investors and the general public of the latest information of the Group, for example the important dates for shareholders in the coming year and a soft copy of this Corporate Governance Report. Further information for shareholders can be found at the back of this report.

Shareholders' Rights

The shareholders' rights are for all time highly regarded by the Group. The Group will endeavor that shareholders know how to exercise their rights. 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 Company'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 Company's Memorandum and Articles of Association, which may be inspected at the Company's Share Registrar. The contact details of the 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

On 1 October 2005, the Group announced that all its products had achieved full compliance with RoHS. All of the Group's products were tested by accredited laboratories in relation to the RoHS requirements. The Group is committed to being a "green" partner of its customers and the society.

There should be no conflict between maximizing profits and contributing to the welfare of society. A socially responsible company can help the society in many ways. For instance, they may donate monies to cultural functions, sponsor students, support community-building activities, commit to not polluting the environment and even set an example for other corporations to follow.

With the purpose of being a socially responsible company, the Group embarked on a number of initiatives in 2005.

1. "Ocean's 10 Project" of WWF

This project is a 3-year awareness campaign in connection with "10 marine flagship species" in Hong Kong. The total sponsorship amount is expected to be HK$730,000, starting from 2005 to 2007. The purpose of the project is to raise the public awareness of marine heritage by introducing 10 marine flagship species, thereby fostering the perception of Hong Kong being a diverse biological habitat. The project entails a series of campaigns including a bus-body-painting competition, the launching of an interactive website and a public photo competition. Furthermore, it involves various educational activities for the Group's employees to participate and take concrete actions to protect the environment. Two such activities took place in October, and 44 voluntary employees, including the Managing Director, gathered at Hoi Ha Wan to remove abandoned trawls from the seabed. As a result, two tones of trawls were lifted and the team was very satisfied with the outcome and pledged to support more environmental protection activities in the future.

1.

2.

1. In October 2005, 44 staff volunteers, including the Group's Managing Director, removed 2 tones of trawls from the seabed of Hoi Ha Wan, helping to save marine life in Hong Kong. (Photo credit: Ming Pao)
2. Chinese White Dolphin, one of the Ocean's 10 selected species, has been living in Hong Kong's waters for hundreds of years. (Photo credit: Lindsay Porter/WWF)

1. The Hong Kong Polytechnic University named a Bauhinia tree at its campus the "Solomon Systech Tree" in recognition of the Group's generous support to the university.

2. Around 80 employees and their family members participated in the "New Territories Walks for Millions" on 13 November 2005 to raise funds for the Community Chest.

2. A "Caring Company"

Apart from making donations to charitable organizations, the Group consistently partners with the social service sector on voluntary work. During the year, the Group actively invited employees and their families to join its charitable and recreational activities. In an attempt to support the handicapped, the Group uses the local courier and car cleaning services provided by those companies that employ the handicapped or disabled people. Together with the activity related to the WWF, the Group was named a "Caring Company" by the Hong Kong Council of Social Service in recognition of its active involvement in social and community activities.

3. Sponsorships and charitable activities

The Group granted 5 scholarships, of HK$20,000 each, and made a donation of more than HK$150,000 to universities in Hong Kong. Additionally, it sponsored an amount of HK$75,000 to a number of charitable organizations such as the Friends of Aged People and the Hong Kong Red Cross. In November 2005, "Walks for Millions" drew the interests of 79 participants from the Group, raising a total of HK$50,000 to the Community Chest. 137 employees also participated in the "Dress Casual Day" last September, contributing a total of HK$25,000 to the same charitable organization.

1.

2.

Employees

Undeniably, the Group's most important assets are its employees. Top on the operations agenda for the management is how to further develop employees and offer them the right trainings in order to cope with new challenges. In 2005, a total of 10,566 hours of training was provided, equivalent to an average of 40.7 hours of training a year per employee (versus 27 hours in 2004). The topics of training varied and ranged from accounting, language skills, products knowledge, marketing to leadership. Besides in-house training, normally given by senior engineers, the Group encourages employees to take external job-related courses and will accordingly sponsor a portion of the course fee. Last year, the Group spent more than HK$1.3 million on trainings and sponsorships.

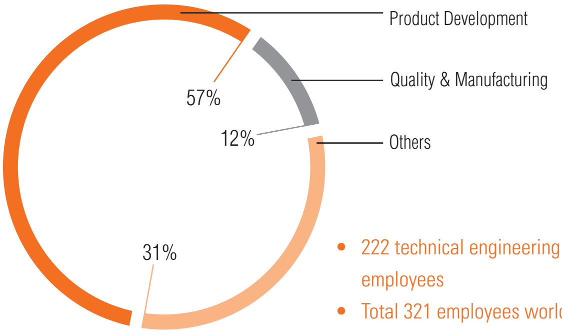
All new employees are required to take mandatory programs on topics including internal control and information protection, ISO and quality management system, in addition to the company orientation introduction. These programs are designed for new hires to get familiar with the Group's operations and its emphasis on quality. All trainings and development programs primarily serve one or more 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.

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, two programs are in place, namely Share Option Scheme and Share Award Plan. All the shares or options of the Group granted to employees in 2005 onwards will be 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.

As at end of 2005, the Group had more than 320 employees, an increase of 40% against the previous year. The employees turnover rate was less than 4% for the year in spite of a strong demand for good engineers in the job market. More than 80% of the Group's employees hold university degrees or above. The Group's emphasis on research and development is also reflected in the make-up of its staff force. Around 60% of which are engineers who specialize in product development.

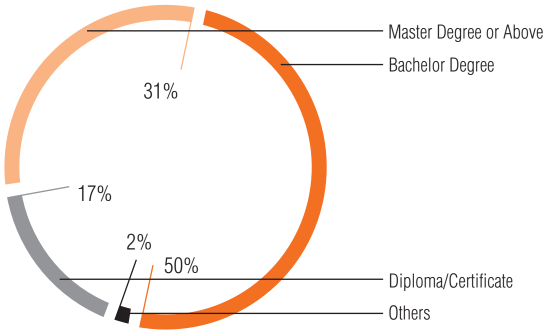
The Group regards its pool of industry talents as its most important asset and seriously rewards its people for excellence, offers them job satisfaction and instills in them a sense of ownership of the company.

Function



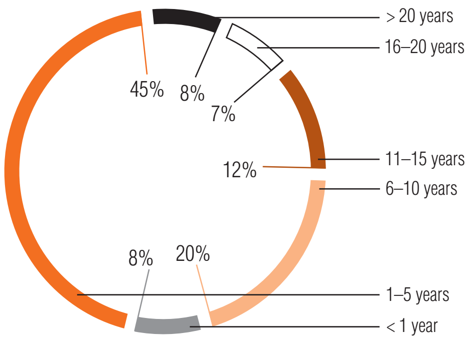
- 222 technical engineering employees
- Total 321 employees worldwide as at 31 December 2005

Education



- 31% Master Degree or above
- 81% Degree or above

Experience



- Management team > 20 years of work experience
- Average 8 years of work experience

As at 31 December 2005, the profile of the Group's employees is highlighted in the charts.

In addition to concentrating on work day and night, most employees take some time to join the activities organized by the Group's Staff Recreation Club. There were weekly activities arranged for employees to suit their individual favorite of sports such as basketball, badminton, football, squash and table tennis. Further, the employees also actively participated in other social events such as a wetland eco-tour, heritage tour and boat trip. The Group truly believes such activities will enhance the relationships between its employees and can foster a "big family" feeling among them.

Report of the Directors

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

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(c) to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 54.

During the year, the directors have declared an interim dividend of HK$0.04 per ordinary share, totalling HK$100,406,000 (US$12,912,000) attributed to the results of 2005, which was paid on 7 October 2005.

The directors recommend the payment of a final dividend of HK$0.15 per ordinary share, totalling HK$376,673,000 (US$48,540,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Thursday, 27 April 2006, is expected to be paid on 12 May 2006 to the shareholders of the Company whose names appear on the register of members of the Company on Thursday, 20 April 2006, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from Friday, 21 April 2006 to Thursday, 27 April 2006, both days inclusive.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$86,000.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2005, comprising share premium reserve of US$114,969,000 that is subject to the regulation of Section 34 of the Cayman Islands Companies Law and the Articles of Association of the Company, the equity compensation of US$3,135,000 and retained earnings of US$58,222,000 totalling US$176,326,000 are 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 and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 23.

Purchase, sale or redemption of Company's listed shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Share options

Share options have been granted to directors and senior management of the Group under (a) the Pre-IPO Share Option Scheme, and (b) the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004.

The Pre-IPO Share Option Scheme was designed 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 of Hong Kong Limited ("Stock Exchange") whilst the purpose of the Share Option Scheme is to provide the participants who may be executive directors, non-executive directors, independent non-executive directors, employees of any member of the Group, any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners or service providers of any member of the Group who, as the Board of Directors, in its sole discretion, may consider, will contribute to the Group, with opportunity to acquire proprietary interests in the Company so as to encourage such participants to work towards enhancing the value of the Company and its shares for the benefit of the Group. The Share Option Scheme provides the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such participants. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of The Rules Governing the Listing of Securities ("the Listing Rules") on the Stock Exchange.

Options were granted under both schemes at a nominal consideration of HK$1.00. Each option gives the holder the right to subscribe for one share of the Company at a pre-determined price per share.

Options to subscribe for 6,300,000 new shares of the Company were granted by the Company to certain directors and certain members of the Group under the Pre-IPO Option Scheme on 19 March 2004 (which was before the listing of the shares of the Company on the Stock Exchange on 8 April 2004 (the "Listing Date")). These options were exercisable at the exercise price of HK$1.75 per share, being the same as the offer price at IPO. After the Listing Date, no option can be issued under the Pre-IPO Scheme. During the year, all the options granted under the Pre-IPO Option Scheme have been exercised.

The Share Option Scheme is valid and effective for a period of 10 years commencing on 19 March 2004, being the date of adoption of such scheme by the Board of Directors of the Company.

The exercise price of the options granted under the Share Option Scheme shall be no less than the higher of (i) the average closing price of the ordinary shares issued by the Company, with a nominal value of HK$0.10 each (the "Shares"), as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately proceeding the date of grant; and (ii) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant. Each option gives the holder the right to subscribe for one share of the Company. Options to subscribe for 6,100,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme on 14 June 2005. These options are exercisable at the exercise price of HK$2.695 per Share, starting 1 July 2006 and will lapse on 1 July 2008.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of approval of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time.

As at 13 March 2006, options to subscribe for a total of 6,100,000 option shares were still outstanding under the Share Option Scheme, which represent approximately 0.24% of the issued ordinary shares of the Company.

Share options (continued)

Details of the share options outstanding as at 31 December 2005 which were granted under the Pre-IPO Option Scheme and the Share Option Scheme are as follows:

	Number of options								
	Held on 1 January 2005	Granted during the year[1]	Exercised during the year	Held on 31 December 2005	Exercise price HK$	Date of exercise[2]	Market closing price at day of exercise HK$	Exercisable from	Exercisable until
Executive and Non-executive Directors									
Lam Pak Lee									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	12 August 2005	2.350	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
Chang Ching Yi, Steven									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
Wong Yuet Leung, Frankie									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	20 October 2005	2.750	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
Leung Kwong Wai									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
Huang Hsing Hua									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
Lai Woon Ching									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
Lo Wai Ming									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
Subtotal	3,800,000	3,800,000	3,800,000	3,800,000					
Independent Non-executive Directors									
Choy Kwok Hung, Patrick									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	19 July 2005	2.475	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
Kao Kuen, Charles									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	10 November 2005	3.050	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
Sun, Patrick									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	26 July 2005	2.550	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
Subtotal	1,500,000	1,800,000	1,500,000	1,800,000					
Senior Management									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
Subtotal	1,000,000	500,000	1,000,000	500,000					
Total	6,300,000	6,100,000	6,300,000	6,100,000					

1 All these options were granted on 14 June 2005.
2 All these options were exercised after the market closed on the date specified.

Share options (continued)

On 14 June 2005 when the relevant options were granted under the Share Option Scheme, the market value per share was HK$2.675. The value of the options granted to the respective parties is as follows:

	HK$'000	US$'000
Dr. Lam Pak Lee	513	66
Mr. Leung Kwong Wai	513	66
Mr. Chang Ching Yi, Steven	513	66
Mr. Sun, Patrick	513	66
Prof. Kao Kuen, Charles	320	41
Mr. Choy Kwok Hung, Patrick	320	41
Mr. Wong Yuet Leung, Frankie	320	41
Mr. Huang Hsing Hua	192	25
Mr. Lai Woon Ching	192	25
Mr. Lo Wai Ming	192	25
Senior management	320	41
	3,908	503

The value of the options granted during the year is HK$3,908,000 (approximately US$503,000), based on the Black-Scholes valuation model. The significant inputs into the model were the share price of HK$2.675 at the grant date, exercise price shown above, standard deviation of expected share price returns of 58%, expected life of option of 2 years, expected dividend paid out rate of 8.34% and annual risk-free interest rate of 3.08%. The volatility measured at the standard deviation of the expected share price returns is based on statistical analysis of daily share prices since the Listing Date. The Black-Scholes model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Directors

The directors during the year were:

Dr. Lam Pak Lee, Non-executive Chairman
Mr. Leung Kwong Wai, Managing Director
Mr. Huang Hsing Hua, Executive Director
Mr. Lai Woon Ching, Executive Director
Mr. Lo Wai Ming, Executive Director
Mr. Chang Ching Yi, Steven, Non-executive Director
Mr. Wong Yuet Leung, Frankie, Non-executive Director
Mr. Choy Kwok Hung, Patrick, Independent Non-executive Director
Prof. Kao Kuen, Charles, Independent Non-executive Director
Mr. Sun, Patrick, Independent Non-executive Director

In accordance with Article 112 of the Company's Articles of Association, Dr. Lam Pak Lee, Mr. Lai Woon Ching and Mr. Lo Wai Ming will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Choy Kwok Hung, Patrick, Prof. Kao Kuen, Charles and Mr. Sun, Patrick, are independent non-executive directors and were re-appointed in 2005 for a term expiring on 30 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 or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, 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 18 to 21.

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

As at 31 December 2005, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of Part XV 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 as at 31 December 2005				
		Directly Owned Shares	Options[(v)]	Beneficially Owned Shares	Total	% of the Issued Share Capital of the Company
Chang Ching Yi, Steven	Long positions	1,800,000	800,000	—	2,600,000	0.10%
	Short positions	—	—	—	—	—
Choy Kwok Hung, Patrick	Long positions	—	500,000	—	500,000	0.02%
	Short positions	—	—	—	—	—
Huang Hsing Hua	Long positions	6,200,000	300,000	2,820,000[(i)]	9,320,000	0.37%
	Short positions	—	—	2,820,000[(i)]	2,820,000	0.11%
Kao Kuen, Charles	Long positions	500,000	500,000	—	1,000,000	0.04%
	Short positions	—	—	—	—	—
Lai Woon Ching	Long positions	30,321,600	300,000	3,420,000[(ii)]	34,041,600	1.36%
	Short positions	—	—	3,420,000[(ii)]	3,420,000	0.14%
Lam Pak Lee	Long positions	25,800,000	800,000	—	26,600,000	1.06%
	Short positions	—	—	—	—	—
Leung Kwong Wai	Long positions	106,200,001	800,000	11,600,000[(iii)]	118,600,001	4.72%
	Short positions	—	—	11,600,000[(iii)]	11,600,000	0.46%
Lo Wai Ming	Long positions	26,360,000	300,000	5,820,000[(iv)]	32,480,000	1.29%
	Short positions	—	—	5,820,000[(iv)]	5,820,000	0.23%
Sun, Patrick	Long positions	500,000	800,000	—	1,300,000	0.05%
	Short positions	—	—	—	—	—
Wong Yuet Leung, Frankie	Long positions	—	500,000	—	500,000	0.02%
	Short positions	—	—	—	—	—

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

(i) Out of the 2,820,000 Shares held by Mr. Huang:

   (a) 2,400,000 Shares are subject to lock-up and shall be released in three equal tranches of 800,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by HSBC International Trustee Limited as custodian ("the Custodian") for Mr. Huang under the Pre-IPO Loyalty Plan; and

   (b) 420,000 Shares are subject to a two year vesting period and held by HSBC International Trustee Limited as trustee (the "Trustee") for the benefit of Mr. Huang under the Share Award Plan of the Company.

(ii) Out of the 3,420,000 Shares held by Mr. Lai:

   (a) 3,000,000 Shares are subject to lock-up and shall be released in three equal tranches of 1,000,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and

   (b) 420,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lai under the Share Award Plan of the Company.

(iii) Out of the 11,600,000 Shares held by Mr. Leung:

   (a) 9,000,000 Shares are subject to lock-up and shall be released in three equal tranches of 3,000,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan; and

   (b) 2,600,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Leung under the Share Award Plan of the Company.

(iv) Out of the 5,820,000 Shares held by Mr. Lo:

   (a) 5,400,000 Shares are subject to lock-up and shall be released in three equal tranches of 1,800,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and

   (b) 420,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lo under the Share Award Plan of the Company.

(v) These are options granted under the Share Option Scheme (see section headed "Share Options" above for more details).

Saved as disclosed above, at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated companies other than Mr. Leung Kwong Wai who holds shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive of the Company.

	Ordinary shares of HK$0.10 each in the Company			
	Capacity	**Long/Short positions**	**Number of shares**	**% of the Issued Share Capital of the Company**
Government of Singapore Investment Corporation Pte. Ltd	Investment Manager	Long	126,611,600	5.04%
Commonwealth Bank of Australia	Attributable interest of controlled corporation	Long	200,411,865	7.98%
Genesis Fund Managers, LLP	Investment Manager	Long	152,414,000	6.07%

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 suppliers and customers

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	32%
- five largest suppliers combined	84%
Sales	
- the largest customer	25%
- five largest customers combined	86%

None of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at 13 March 2006.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the applicable Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December, 2005 except that the Article 112 of the Articles of Association of the Company provides that the Managing Director shall not be subject to rotation at the annual general meeting.

Compliance with the Model Code

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

Auditors

The financial statements for the year ended 31 December 2005 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, 13 March 2006

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

TO THE SHAREHOLDERS OF
Solomon Systech (International) Limited
(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 54 to 95 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 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, 13 March 2006

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Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	2005 US$'000	Restated 2004 US$'000
Sales	5	**394,089**	308,238
Cost of sales		**(274,538)**	(211,651)
Gross profit		**119,551**	96,587
Other gain - net	6	**4,485**	461
Research and development costs		**(17,523)**	(11,809)
Selling and distribution expenses		**(2,255)**	(2,858)
Administrative expenses		**(11,789)**	(11,501)
Other operating expenses		**(235)**	(108)
Operating profit		**92,234**	70,772
Finance costs	9	**(2)**	(2)
Share of result of an associated company	17	**(216)**	(194)
Profit before taxation		**92,016**	70,576
Taxation	10	**(15,762)**	(12,641)
Profit attributable to shareholders	11	**76,254**	57,935
Dividends	12	**61,452**	63,087
Earnings per share (expressed in US cents per share)	13		
Basic		**3.12**	2.63
Diluted		**3.08**	2.50

The notes on pages 59 to 95 are an integral part of these consolidated financial statements

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 US$'000	Restated 2004 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	11,077	9,548
Investment in an associated company	17	903	1,119
Available-for-sale financial assets	18	—	—
Fixed bank deposit		5,000	11,000
		16,980	21,667
Current assets			
Inventories	19	36,212	42,458
Trade and other receivables	20	59,219	58,166
Other financial assets		1,250	—
Pledged bank deposits		130	2,130
Short-term fixed deposits	21	37,000	—
Cash and cash equivalents	21	119,479	125,715
		253,290	228,469
Total assets		270,270	250,136
EQUITY			
Capital and reserves			
Share capital	22	32,360	32,279
Own shares held		(605)	(1,338)
Reserves			
Proposed final dividend	12	48,540	38,655
Others		126,718	107,184
		207,013	176,780
LIABILITIES			
Non-current liabilities			
Obligations under finance leases	27	29	20
Deferred tax liabilities	28	574	29
		603	49
Current liabilities			
Trade and other payables	26	56,357	63,399
Tax payable		6,287	9,900
Obligations under finance leases	27	10	8
		62,654	73,307
Total liabilities		63,257	73,356
Total equity and liabilities		270,270	250,136
Net current assets		190,636	155,162
Total assets less current liabilities		207,616	176,829

The notes on pages 59 to 95 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 US$'000	Restated 2004 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		296	—
Investments in subsidiaries	16(a)	50,078	50,016
Fixed bank deposits		—	6,000
		50,374	56,016
Current assets			
Trade and other receivables		1,033	98
Due from subsidiaries	16(b)	59,062	43,879
Other financial assets		1,000	—
Short-term fixed deposits	21	32,000	—
Cash and cash equivalents	21	65,379	88,240
		158,474	132,217
Total assets		208,848	188,233
EQUITY			
Capital and reserves			
Share capital	22	32,360	32,279
Other reserves			
Reserves	24(b)		
- Proposed final dividend		48,540	38,655
- Others		127,786	117,083
Total equity		208,686	188,017
LIABILITIES			
Current liabilities			
Due to a subsidiary	16(b)	48	48
Provisions for other liabilities and charges		114	168
		162	216
Total liabilities		162	216
Total equity and liabilities		208,848	188,233
Net current assets		158,312	132,001
Total assets less current liabilities		208,686	188,017

The notes on pages 59 to 95 are an integral part of this financial statement.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital US$'000	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2004, as previously reported	24,302	—	—	2,082	(1)	—	23,533	49,916
Effect of changes in accounting policies	—	—	(755)	—	—	384	394	23
At 1 January 2004, as restated	24,302	—	(755)	2,082	(1)	384	23,927	49,939
Exchange differences	—	—	—	—	(40)	—	—	(40)
Capitalisation of retained earnings for issue of new shares	2,436	—	(1,530)	—	—	—	(906)	—
Issue of ordinary shares	5,541	91,431	—	—	—	—	—	96,972
Share issue expenses	—	(5,037)	—	—	—	—	—	(5,037)
Dividends paid, net of portion for own shares held	—	—	—	—	—	—	(24,008)	(24,008)
Profit for the year	—	—	—	—	—	—	57,935	57,935
Equity Compensation	—	—	947	—	—	1,232	(1,160)	1,019
At 31 December 2004	32,279	86,394	(1,338)	2,082	(41)	1,616	55,788	176,780
At 1 January 2005, as previously reported	32,279	86,394	—	2,082	(41)	—	55,865	176,579
Effect of changes in accounting policies	—	—	(1,338)	—	—	1,616	(77)	201
At 1 January 2005, as restated	32,279	86,394	(1,338)	2,082	(41)	1,616	55,788	176,780
Exchange difference	—	—	—	—	17	—	—	17
Exercise of share option	81	1,337	—	—	—	—	—	1,418
Dividends paid, net of portion for own shares held	—	—	—	—	—	—	(50,599)	(50,599)
Profit for the year	—	—	—	—	—	—	76,254	76,254
Equity compensation	—	—	—	—	—	3,143	—	3,143
Equity compensation transferred to share premium	—	1,624	733	—	—	(1,624)	(733)	—
At 31 December 2005	32,360	89,355	(605)	2,082	(24)	3,135	80,710	207,013

The notes on pages 59 to 95 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 US$'000	Restated 2004 US$'000
Operating activities			
Net cash inflow generated from operations	29(a)	98,205	46,477
Hong Kong profits tax paid		(18,847)	(6,793)
Overseas tax paid		17	—
Interest element of finance lease rental payments		(2)	(2)
Net cash inflow from operating activities		79,373	39,682
Investing activities			
Decrease/(Increase) in fixed bank deposits		6,000	(11,000)
Purchase of property, plant and equipment		(6,205)	(7,995)
Proceeds from sale of property, plant and equipment	29(b)	6	—
Acquisition of associated company		—	(1,313)
Increase in short-term fixed deposits		(37,000)	—
Increase in other financial assets		(1,250)	—
Interest received		4	395
Net cash outflow from investing activities		(38,445)	(19,913)
Financing activities			
Issue of ordinary shares		—	96,972
Share issue expenses		—	(5,037)
Proceed from the exercise of Pre-IPO Share Options		1,418	—
Payment of capital element of finance leases		(8)	(8)
Inception of finance lease		19	31
Decrease in pledged bank deposits		2,000	1,053
Dividends paid		(51,567)	(24,399)
Dividend received from own shares held not vested		968	178
Net cash (outflow)/inflow from financing activities		(47,170)	68,790
(Decrease)/Increase in cash and cash equivalents		(6,242)	88,559
Effect of foreign exchange rate changes		6	(40)
Cash and cash equivalents at 1 January		125,715	37,196
Cash and cash equivalents at 31 December		119,479	125,715
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		119,479	125,715

The notes on pages 59 to 95 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 General information

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation - Special Purpose Entities
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

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

2.2 Consolidation

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

(a) Subsidiaries

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Associated company

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

The Group's share of its associated company post-acquisition profits or losses is recognized in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

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

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

(c) Special purpose entity

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Patents and intellectual property

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

2.7 Impairment of assets

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

2.8 Investments

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.8 Investments (continued)

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

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

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

2 Summary of significant accounting policies (continued)

2.9 Inventories

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

2.10 Trade and other receivables

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

2.11 Cash and cash equivalents

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

2.12 Share capital

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

2.13 Deferred income tax

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

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

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

2 Summary of significant accounting policies (continued)

2.14 Employee benefits

(a) Pension obligations

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

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

(b) Equity compensation

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

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

Under the Share Award Plan, directors and employees of the Group are entitled to receive shares in the Company. The shares, held under trust by HSBC International Trustee Limited for the benefit of the directors and employees, have been created by capitalising the Company's retained earnings to pay up consideration at nominal value in full prior to the listing of the Company in the Stock Exchange. Detail of outstanding shares can be referred to Note 23(c) to the financial statements on page 90.

The Company also adopted the Share Option Scheme under which options may be granted to subscribe for the Company's shares. Please refer to Note 23(b) on page 90 for detail of the option plans.

(c) Employee leave entitlements

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

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

(d) Profit-sharing and bonus plans

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

2.15 Provisions

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

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

2 Summary of significant accounting policies (continued)

2.16 Revenue recognition

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

(a) Sales of products

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

(b) Interest income

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

2.17 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

2.18 Government grants

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

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

2.19 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

2.20 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

Foreign exchange risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

3.2 Fair value estimation

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

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

4 Critical accounting estimates and judgements

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

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

(a) Income taxes

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

(b) Equity compensation

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

(c) Property, plant and equipment and depreciation

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

5 Segment information – Group

(a) Primary reporting format – business segment

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

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

(b) Secondary reporting format – geographical segments

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

(i) Sales

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

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

5 Segment information – Group (continued)

(b) *Secondary reporting format – geographical segments* (continued)

(ii) Total assets

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

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

(iii) Capital expenditures

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

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

6 Other gain – net – Group

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

7 Expenses by nature – Group

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

	2005 US$'000	Restated 2004 US$'000
Loss on disposal of property, plant and equipment	12	—
Auditors' remuneration	123	108
Depreciation of owned property, plant and equipment	4,660	3,932
Depreciation of leased property, plant and equipment	9	5
Operating leases for land and buildings	778	490
Amortisation of patents and intellectual property included in research and development costs (Note 15)	—	675
Amortisation of goodwill included in administrative expenses (Note 15)	—	291
Employee benefit expenses (Note 8)	16,412	12,042
Net exchange losses	127	156
(Write-back of provision)/Provision for doubtful debts	(1,782)	1,174
(Write-back of provision)/Provision for obsolete or slow moving inventories	(65)	4,232

8 Employee benefit expenses – Group

(a) Employee benefit expenses

	2005 US$'000	Restated 2004 US$'000
Wages and salaries	8,702	6,068
Discretionary bonus	4,023	3,781
Equity compensation	2,245	1,174
Pension costs - defined contribution plans [1]	440	313
Other staff benefits	1,002	706
	16,412	12,042

[1] Forfeited contribution to the defined contribution plans will be utilized to reduce future contributions. During the year, there is no material contribution being forfeited.

8 Employee benefit expenses – Group (continued)

(b) Directors' emoluments

The remuneration of every director including the equity compensation charged to the profit and loss account per HKFRS 2 is set out below:

For the year ended 31 December 2005										
Name of Director	Fees US$'000	Salary US$'000	Discretionary Bonuses[i] US$'000	Inducement fees US$'000	Other benefits[ii] US$'000	Employer's contribution to pension scheme US$'000	Compensation for loss of office as director US$'000	Subtotal US$'000	Equity compensation[iii] US$'000	Total US$'000
Leung Kwong Wai	—	226	529	—	51	10	—	816	443	1,259
Huang Hsing Hua	—	115	122	—	12	5	—	254	76	330
Lai Woon Ching	—	129	122	—	2	6	—	259	82	341
Lo Wai Ming	—	125	122	—	2	6	—	255	84	339
Lam Pak Lee	19	—	—	—	—	—	—	19	44	63
Chang Ching Yi, Steven	19	—	—	—	—	—	—	19	44	63
Wong Yuet Leung, Frankie	19	—	—	—	—	—	—	19	28	47
Choy Kwok Hung, Patrick	23	—	—	—	—	—	—	23	28	51
Kao Kuen, Charles	23	—	—	—	—	—	—	23	28	51
Sun, Patrick	23	—	—	—	—	—	—	23	41	64
Total	126	595	895	—	67	27	—	1,710	898	2,608

For the year ended 31 December 2004										
Name of Director	Fees US$'000	Salary US$'000	Discretionary Bonuses[i] US$'000	Inducement fees US$'000	Other benefits[ii] US$'000	Employer's contribution to pension scheme US$'000	Compensation for loss of office as director US$'000	Subtotal US$'000	Equity compensation[iii] US$'000	Total US$'000
Leung Kwong Wai	—	221	387	—	51	10	—	669	204	873
Huang Hsing Hua	—	114	136	—	11	4	—	265	21	286
Lai Woon Ching	—	127	136	—	1	6	—	270	42	312
Lo Wai Ming	—	120	136	—	2	6	—	264	51	315
Lam Pak Lee	16	—	—	—	—	—	—	16	28	44
Chang Ching Yi, Steven	23	—	—	—	—	—	—	23	28	51
Wong Yuet Leung, Frankie	18	—	—	—	—	—	—	18	17	35
Choy Kwok Hung, Patrick	20	—	—	—	—	—	—	20	17	37
Kao Kuen, Charles	19	—	—	—	—	—	—	19	17	36
Sun, Patrick	20	—	—	—	—	—	—	20	17	37
Total	116	582	795	—	65	26	—	1,584	442	2,026

Notes:

(i) 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.

(ii) Other benefits include leave pay, insurance premium and other allowances.

(iii) This represents the amount charged to profit and loss account per requirement under HKFRS 2.

8 Employee benefit expenses – Group (continued)

(c) *Equity Compensation to Directors*

More detail for the Equity Compensation Scheme can be referred to Note 23 to the financial statements. Detail of the share options and shares granted to each of the directors and their corresponding fair value are listed as below:

Name of Director	2005 No. of Share Options Granted [1] (in thousand)	2005 Fair Value of the share option at Grant Date [3] US$'000	2005 No. of Shares Granted [2] (in thousand)	2005 Fair Value of the share at Grant Date [3] US$'000	2004 No. of Share Options Granted [4] (in thousand)	2004 Fair Value at Grant Date [6] US$'000	2004 No. of Shares Grant [5] (in thousand)	2004 Fair Value at Grant Date [7] US$'000
Leung Kwong Wai	800	66	2,600	886	800	38	26,400	5,941
Huang Hsing Hua	300	25	420	143	300	14	5,700	1,283
Lai Woon Ching	300	25	420	143	300	14	7,400	1,665
Lo Wai Ming	300	25	420	143	300	14	12,000	2,701
Lam Pak Lee	800	66	—	—	800	38	—	—
Chang Ching Yi, Steven	800	66	—	—	800	38	—	—
Wong Yuet Leung, Frankie	500	41	—	—	500	24	—	—
Choy Kwok Hung, Patrick	500	41	—	—	500	24	—	—
Kao Kuen, Charles	500	41	—	—	500	24	—	—
Sun, Patrick	800	66	—	—	500	24	—	—
Total	5,600	462	3,860	1,315	5,300	252	51,500	11,590

1 5,600,000 share options were granted to the Directors of the Group on 14 June 2005 under the Share Option Scheme. The share options can be exercised commencing from 1 July 2006.

2 3,860,000 shares from the Share Award Plan of the Company were granted to the Executive Directors of the Company on 7 June 2005. 1,544,000 shares (40% of the total) will be vested on 7 June 2006 and 2,316,000 shares (60% of the total) will be vested on 7 June 2007.

3 These represent the full fair value at grant date to be amortized in accordance to the vesting term of the Schemes and may differ from the total charge to the profit and loss account of the corresponding year.

4 5,300,000 share options were granted to the Directors of the Group on 19 March 2004 under the Pre-IPO Share Option Scheme. The share options were all exercised in 2005.

5 26,400,000 shares from the Pre-IPO Loyalty Plan and 25,100,000 from the Pre-IPO Share Reward Plan of the Company totalling 51,500,000 shares were granted to the Executive Directors of the Company on 19 March 2004. The shares from the Pre-IPO Loyalty Plan were vested on 1 April 2004 and the shares granted under the Pre-IPO Share Reward Plan were vested on 31 December 2004.

6 The share options were granted on 19 March 2004, a date prior to the Listing Date of the Company in the Stock Exchange and prior to the inception of HKFRS 2. The fair value of the share option was determined retrospectively with IPO Offer Price as one of the key significant inputs to the Black-Scholes model in 2005. This represented the full fair value which had been restated and amortized in the 2004 and 2005 financial statements respectively.

7 The Shares were granted on 19 March 2004, a date prior to the Listing Date of the Company in the Stock Exchange and prior to the inception of HKFRS 2. The fair value of the shares was determined retrospectively with IPO Offer Price. Shares under both the Pre-IPO Loyalty Plan and the Pre-IPO Share Reward Plan were vested prior to 1 January 2005 and HKFRS 2 is not applicable (see note 2.1 to the financial statements). The fair values stated here are purely for information only and are not required to reflect in the profit and loss account of 2005 and 2004.

(d) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group during the year include three (2004: four) directors whose emoluments are reflected in the analysis above. The amount of emolument paid and payable to the remaining two (2004: one) individual during the year is as follows:

	2005 US$'000	Restated 2004 US$'000
Number of individuals (excluding directors)	**2**	1
Basic salaries and other benefits	**225**	115
Discretionary bonus	**154**	102
Employer's contribution to pension scheme	**10**	5
	389	222
Equity compensation[1]	**334**	46
	723	268

The emoluments fell within the following bands:

	Number of individuals	
	2005	Restated 2004
US$350,001 - US$400,000	**1**	—
US$300,001 - US$350,000	**1**	—
US$250,001 - US$300,000	**—**	1
	2	1

[1] This represents the amount charged to profit and loss account per HKFRS 2 requirement.

Remarks

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

— 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 (2004: Nil).

9 Finance costs – Group

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

10 Taxation – Group

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

	2005 US$'000	2004 US$'000
Current taxation:		
Hong Kong profits tax	**15,869**	13,385
Overseas profits tax	**(17)**	—
Over provisions in prior years	**(635)**	(186)
Deferred taxation (Note 28)	**545**	(558)
Taxation charge	**15,762**	12,641

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

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

11 Profit attributable to shareholders of the Company

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

12 Dividends

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

Notes:

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

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

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

13 Earnings per share

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

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

Diluted earnings per share information is based on 2,473,217,108 (2004 restated: 2,320,846,751) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding to assume conversion of all share options outstanding but excluding unallocated own shares held during the year. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	Restated 2004
Weighted average number of ordinary shares in issue	**2,445,135,773**	2,204,501,037
Adjustments for – allocated own shares	**27,052,538**	116,134,638
– share options	**1,028,797**	211,076
Weighted average number of ordinary shares for diluted earnings per share	**2,473,217,108**	2,320,846,751

14 Property, plant and equipment – 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
At 1 January 2004					
Cost	1,566	3,837	3,321	127	8,851
Accumulated depreciation	(439)	(2,182)	(705)	(35)	(3,361)
Net book amount	1,127	1,655	2,616	92	5,490
For year ended 31 December 2004					
Opening net book amount	1,127	1,655	2,616	92	5,490
Additions	135	2,162	5,672	26	7,995
Depreciation	(292)	(2,039)	(1,555)	(51)	(3,937)
Closing net book amount	970	1,778	6,733	67	9,548
At 31 December 2004					
Cost	1,384	5,954	9,025	153	16,516
Accumulated depreciation	(414)	(4,176)	(2,292)	(86)	(6,968)
Net book amount	970	1,778	6,733	67	9,548
For year ended 31 December 2005					
Opening net book amount	970	1,778	6,733	67	9,548
Exchange differences	—	5	6	—	11
Additions	535	4,011	1,659	—	6,205
Disposals	—	(18)	—	—	(18)
Depreciation	(406)	(1,784)	(2,428)	(51)	(4,669)
Closing net book amount	1,099	3,992	5,970	16	11,077
At 31 December 2005					
Cost	1,919	9,884	10,690	153	22,646
Accumulated depreciation	(820)	(5,892)	(4,720)	(137)	(11,569)
Net book amount	1,099	3,992	5,970	16	11,077

Depreciation expense of US$2,366,000 (2004: US$2,406,000) has been expensed in cost of sales, US$398,000 (2004: US$675,000) in research and development costs and US$1,905,000 (2004: US$856,000) in administrative expenses.

15 Intangible assets – Group

	Patents and Intellectual property US$'000	Goodwill US$'000	Total US$'000
At 1 January 2004			
Cost	4,500	933	5,433
Accumulated amortisation	(3,825)	(642)	(4,467)
Net book amount	675	291	966
For year ended 31 December 2004			
Opening net book amount	675	291	966
Amortisation expense	(675)	(291)	(966)
Closing net book amount	—	—	—
At 31 December 2005			
Cost	4,500	933	5,433
Accumulated amortisation	(4,500)	(933)	(5,433)
Net book amount	—	—	—

16 Investments in subsidiaries

(a) Investments in subsidiaries

	Company	
	2005	2004
	US$'000	US$'000
Investment in unlisted shares, at cost	**50,078**	50,016

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are interest-free and have no fixed terms of repayment.

(c) Particulars of subsidiaries

The following is a list of the principal subsidiaries at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Directly held:				
Solomon Systech Limited ("SSL")	Hong Kong, limited liability company ("LLC")	Research, design and distribution of integrated circuits, Hong Kong	188,585,271 Ordinary shares of HK$1 each	100%
Ample Pacific Limited ("Ample")	British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Cornway International Limited ("Cornway")	British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Pac-Pacific Limited ("Pac-Pacific")	Hong Kong, LLC	Investment holding, Hong Kong	2 ordinary shares of HK$1 each	100%
Mentor Ventures Limited ("Mentor")	British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Indirectly held:				
Systech Technology China Limited ("STCL")	Hong Kong, LLC	Investment holding, Hong Kong	10,000 ordinary shares of HK$1 each	100%
Solomon Systech Inc. ("SSI")	U.S.A., LLC	Market research, U.S.A.	20,000 ordinary shares of US$1 each	100%
Solomon Systech (Shenzhen) Limited ("SSSZ")	China, LLC	Research, design and distribution of integrated circuits, China	HK$8,000,000 registered and paid up capital	100%
Solomon Systech Japan Company Limited ("SSJCL")	Japan, LLC	Market research, Japan	10,000 ordinary shares of JPY1,000 each	100%
Solomon Systech Pte. Ltd. ("SSPL")	The Republic of Singapore, LLC	Research, design and distribution of integrated circuits, Singapore	480,000 ordinary shares of SGD1 each	100%
Jing Guang Semiconductors (Dongguan) Limited ("JGDG")	China, LLC	Manufacturing of integrated circuits, China	US$5,500,000 registered capital (US$850,000 paid up)	100%
Solomon Systech Taiwan Limited ("SST")	Republic of China ("Taiwan") LLC	Market research, Taiwan	5,000,000 ordinary shares of TWD10 each	100%

17 Investment in an associated company – Group

	2005 US$'000	2004 US$'000
At 1 January	**1,119**	—
Increase in interest in an associated company	—	1,313
Amortisation of goodwill	—	(24)
Share of associated company's results	**(216)**	(170)
At 31 December	**903**	1,119

The Group's interest in its associated company was as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2005 Assets	As at 31 December 2005 Liabilities	For the year ended 31 December 2005 Revenue	For the year ended 31 December 2005 Loss	Interest held indirectly
				US$'000	US$'000	US$'000	US$'000	
WE3 Technology Company Limited	Hong Kong	Research, design, development and distribution of handsets solutions	3,500,000 ordinary shares of HK$1 each	3,914	134	1,520	1,075	20%

18 Available-for-sale financial assets – Group

	2005 US$'000	2004 US$'000
Unlisted shares, at cost	284	284
Less: Provision for impairment loss	(284)	(284)
	—	—

19 Inventories – Group

	2005 US$'000	2004 US$'000
Finished goods	4,576	16,949
Raw materials and work in progress	36,847	30,785
	41,423	47,734
Less: Provision for obsolete or slow moving inventories	(5,211)	(5,276)
	36,212	42,458

The cost of inventories that is recognised as expense and included in cost of sales amounted to US$278,529,000 (2004: US$206,144,000).

20 Trade and other receivables – Group

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

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

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

21 Cash and cash equivalents and short-term fixed deposits

	Group		Company	
	2005 US$'000	2004 US$'000	2005 US$'000	2004 US$'000
Cash at bank and in hand	8,160	124,715	165	88,240
Short-term bank deposits[1]	111,319	1,000	65,214	—
Cash and cash equivalents	119,479	125,715	65,379	88,240
Short-term fixed deposits[2]	37,000	—	32,000	—
	156,479	125,715	97,379	88,240

[1] The effective interest rate on short-term bank deposits was 4.0% (2004: 1.8%); these deposits have an average maturity of 26 days. (2004: 21 days)

[2] The effective interest rate on short-term fixed deposits was 3.5% (2004: N/A); these deposits have an average maturity of 231 days. (2004: N/A)

22 Share capital

	2005		2004	
	No. of shares	US$'000	No. of shares	US$'000
Authorised:				
Ordinary shares of HK$0.10 each	5,000,000,000	64,433	5,000,000,000	64,433
Issued and fully paid:				
At 1 January	2,504,854,351	32,279	1,885,852,711	24,302
Capitalisation of retained earnings for issue of new shares	—	—	189,000,000	2,436
New issue of shares	—	—	430,001,640	5,541
Exercise of share options (Note 23 (a))	6,300,000	81	—	—
At 31 December	2,511,154,351	32,360	2,504,854,351	32,279

23 Equity Compensation Scheme

(a) *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 25 February 2004 and a meeting of the Board on 19 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.

On 19 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 after the Listing Date. These options may be exercised at any time commencing 9 April 2005 to 8 April 2009, at the exercise price of HK$1.75 per share.

Movements in the number of share options under the Pre-IPO Share Option Scheme and their related exercise price are as follows:

	2005		2004	
	Exercise price in HK$ per share	**No. of options (thousands)**	Exercise price in HK$ per share	No. of options (thousands)
At 1 January	**1.75**	**6,300**		—
Granted		**—**	1.75	6,300
Exercised	**1.75**	**6,300**		—
At 31 December		**—**		6,300

All share options were exercised during the year and there was no share option outstanding under the Pre-IPO Share Option Scheme as at 31 December 2005.

The share options were granted on 19 March 2004, a date prior to the listing of the Company in the Stock Exchange and prior to the inception of the HKFRS 2. The fair value of options granted was not included in the preparation of financial statements for the year ended 31 December 2004.

In 2005, the fair value of the share options granted in 2004 under the Pre-IPO Option Scheme determined retrospectively using the Black-Scholes valuation model was US$297,000 (2004: N/A). The 2004 comparative figure was restated and the impact of HKFRS 2 was highlighted under Note 2 to the financial statements on page 61.

The significant inputs into the model were share price of HK$1.75, the IPO Offer Price in lieu of the market price at grant date (2004: N/A), exercise price shown above, expected life of options of 2 years (2004: N/A), expected dividend paid out rate of 2.63% (2004: N/A) and annual risk-free interest rate of 2.389% (2004: N/A). The annualised volatility of 40% is based on statistical analysis of daily share prices from 8 April 2004 to 29 March 2005. In view of the short listing history, the volatility was adjusted by reference to other listed companies in same industry.

23 Equity Compensation Scheme (continued)

(b) *The Share Option Scheme*

The Company also adopted the Share Option Scheme at an extraordinary general meeting held on 25 February 2004 and a meeting of the Board on 19 March 2004 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 Share Option 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 Rules governing the Listing of Securities on the Stock Exchange.

On 14 June 2005, options to subscribe for 6,100,000 shares of the Company 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. These options may be exercised at any time commencing 1 July 2006 to 30 June 2008, at the exercise price of HK$2.695 per share.

Movements in the number of share options outstanding and their related exercise price are as follows:

	2005		2004	
	Exercise price in HK$ per share	No. of options (thousands)	Exercise price in HK$ per share	No. of options (thousands)
At 1 January		—		—
Granted	2.695	6,100		—
At 31 December	2.695	6,100		—

The fair value of options granted during the period determined using the Black-Scholes valuation model was US$503,000 (2004: N/A). The significant inputs into the model were share price of HK$2.675 (2004: N/A) at the grant date, exercise price shown above, expected life of options of 2 years (2004: N/A), expected dividend paid out rate of 8.34% (2004: N/A) and annual risk-free interest rate of 3.086% (2004: N/A). The volatility of 58.47% measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from 8 April 2004, the Listing Date to 14 June 2005, the option grant date.

23 Equity Compensation Scheme (continued)

(b) The Share Option Scheme (continued)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date - 1 July	Exercise price HK$ per share	No. of options 2005 (thousands)	2004 (thousands)
2008	2.695	**6,100**	—

(c) The Share Award Plan

The Share Award Plan was adopted by the Company at an extraordinary general meeting held on 25 February 2004 and the Board on 19 March 2004 with an initial pool of 46,223,520 shares held by HSBC International Trustee Limited ("HSBC Trust") as Trustee for the benefit of the directors and 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. At 31 December 2005, a net 18,912,000 shares were reserved for named employees leaving a balance of 28,143,520 for future grant to directors and employees in 2006 and beyond.

Shares held by HSBC Trust as Trustee under the Share Award Plan	No. of shares
At 1 January 2005	46,223,520
Forfeited shares transferred from the employee share reward plan of Solomon Systech Limited	950,000
Forfeited shares transferred from the Pre-IPO Share Reward Plan[1]	1,350,000
Shares vested during the year	(1,468,000)
At 31 December 2005	47,055,520

The following is a summary of the shares granted, vested and forfeited during the year:

	Cumulative total	No. of shares 2005	2004
Granted during the year	20,460,000	**16,790,000**	3,670,000
Vesting of the 40% of shares granted in 2004 during 2005	(1,468,000)	**(1,468,000)**	—
Forfeiture of shares granted during the year	(80,000)	**(80,000)**	—
	18,912,000	**15,242,000**	3,670,000

The Group has followed the new HKFRS 2 in the financial statements for the year ended 31 December 2005 to account for the equity compensation expenses at appropriate market price at the date of grant.

[1] During the year, the 1,350,000 unvested shares were transferred from the Pre-IPO Share Reward Plan which was terminated under a Termination Deed dated 9 March 2005.

24 Reserves - Group

(a) Group

	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compen-sation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2004, as previously reported	—	—	2,082	(1)	—	23,533	25,614
Effect of changes in accounting policies	—	(755)	—	—	384	394	23
At 1 January 2004, as restated	—	(755)	2,082	(1)	384	23,927	25,637
Exchange differences	—	—	—	(40)	—	—	(40)
Capitalisation of retained earnings for issue of new shares	—	(1,530)	—	—	—	(906)	(2,436)
Issue of ordinary shares	91,431	—	—	—	—	—	91,431
Share issue expenses	(5,037)	—	—	—	—	—	(5,037)
Dividends paid, net of portion for own shares held	—	—	—	—	—	(24,008)	(24,008)
Profit for the year	—	—	—	—	—	57,935	57,935
Equity compensation	—	947	—	—	1,232	(1,160)	1,019
At 31 December 2004	86,394	(1,338)	2,082	(41)	1,616	55,788	144,501
At 1 January 2005, as previously reported	86,394	—	2,082	(41)	—	55,865	144,300
Effect of changes in accounting policies	—	(1,338)	—	—	1,616	(77)	201
At 1 January 2005, as restated	86,394	(1,338)	2,082	(41)	1,616	55,788	144,501
Exchange difference	—	—	—	17	—	—	17
Exercise of share options	1,337	—	—	—	—	—	1,337
Dividends paid, net of portion for own shares held	—	—	—	—	—	(50,599)	(50,599)
Profit for the year	—	—	—	—	—	76,254	76,254
Equity compensation	—	—	—	—	3,143	—	3,143
Equity compensation transferred to share premium	1,624	733	—	—	(1,624)	(733)	—
At 31 December 2005	89,355	(605)	2,082	(24)	3,135	80,710	174,653

24 Reserves - Group (continued)

(b) Company

	Share premium US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2004, as previously reported	25,614	—	18,408	44,022
Effect of changes in accounting policies	—	384	—	384
At 1 January 2004, as restated	25,614	384	18,408	44,406
Capitalisation of retained earnings for issue of new shares	—	—	(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	—	—	50,541	50,541
Equity compensation	—	1,232	—	1,232
At 31 December 2004	112,008	1,616	42,114	155,738
At 1 January 2005, as previously reported	112,008	—	42,336	154,344
Effect of changes in accounting policies	—	1,616	(222)	1,394
At 1 January 2005, as restated	112,008	1,616	42,114	155,738
Exercise of share options	1,337	—	—	1,337
Dividends paid	—	—	(51,567)	(51,567)
Profit for the year	—	—	67,675	67,675
Equity compensation	—	3,143	—	3,143
Equity compensation transferred to share premium	1,624	(1,624)	—	—
At 31 December 2005	114,969	3,135	58,222	176,326

25 Banking facilities – Group

At 31 December 2005, the banking facilitates of the Group amounting to US$16,232,000 (2004: US$16,232,000) are secured by the pledge of bank deposits of US$130,000 (2004: US$2,130,000).

26 Trade and other payables – Group

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

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

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

27 Obligations under finance leases - Group

	2005 US$'000	2004 US$'000
Wholly repayable within five years	39	28
Current portion	(10)	(8)
	29	20

At 31 December 2005, the Group's finance lease liabilities were repayable as follows:

	2005 US$'000	2004 US$'000
Within one year	11	9
In the second to fifth year	33	24
	44	33
Future finance charges on finance leases	(5)	(5)
Present value of finance lease liabilities	39	28
The present value of finance lease liabilities is as follows:		
Within one year	10	8
In the second to fifth year	29	20
	39	28

28 Deferred taxation - Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	2005 US$'000	2004 US$'000
At 1 January	29	587
Deferred taxation charged/(credited) to consolidated profit and loss account (Note 10)	545	(558)
At 31 December	574	29

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

	Accelerated Tax depreciation US$'000
At 1 January 2004	587
Credited to consolidated profit and loss account in 2004	(558)
At 31 December 2004 and 1 January 2005	29
Charged to consolidated profit and loss account in 2005	545
At 31 December 2005	574

29 Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operations

	2005 US$'000	Restated 2004 US$'000
Operating profit	92,234	70,772
Depreciation of property, plant and equipment	4,669	3,937
Amortisation of patents and intellectual property	—	675
Amortisation of goodwill	—	291
Provision for equity compensation	3,143	1,232
Loss on disposal of property, plant and equipment	12	—
Interest income	(4)	(395)
Operating profit before working capital changes	100,054	76,512
Increase in trade and other receivables	(1,053)	(36,458)
Decrease/(Increase) in inventories	6,246	(29,375)
(Decrease)/Increase in trade and other payables	(7,042)	35,798
Net cash inflow generated from operations	98,205	46,477

29 Consolidated cash flow statement (continued)

(b) *Proceeds from sale of property, plant and equipment*

	2005 US$'000	2004 US$'000
Net book amount (note 14)	**18**	—
Loss on sale of property, plant and equipment	**(12)**	—
Proceeds from sale of property, plant and equipment	**6**	—

30 Commitments – Group

Capital commitments

Capital expenditure for property, plant and equipment at the balance sheet date but not yet incurred is as follows:

	2005 US$'000	2004 US$'000
Contracted but not provided for	**659**	470

Operating lease commitments - where a Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 US$'000	2004 US$'000
Not later than 1 year	**670**	651
Later than 1 year and not later than 5 years	**1,419**	2,029
	2,089	2,680

31 Approval of financial statements

The financial statements were approved by the board of Directors on 13 March 2006.

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 Dr. 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 Professor KAO Kuen, Charles
Qualified Accountant/ Company Secretary	Mrs. FUNG Lui Kit Har, Keziah *FCMA FHKCPA ACS ACIS*
Corporate Development	Mr. Wong Mei Keung, Leo
Principal Office	6/F., No.3 Science Park East Avenue Hong Kong Science Park Shatin, N.T. Hong Kong Tel: (852) 2207 1111 Fax: (852) 2267 0800
Website	www.solomon-systech.com
Principal Bankers	The Hong Kong and Shanghai Banking Corporation Limited The Standard Chartered Bank (Hong Kong) Limited Hang Seng Bank Limited Hua Nan Commercial Bank, Ltd DBS Bank (Hong Kong) Limited Bank of Tokyo-Mitsubishi UFJ JPMorgan Chase Bank, N.A.
Auditors	PricewaterhouseCoopers
Solicitors	Richards Butler

Financial Calendar

Listing date	8 April 2004
Interim results announced	7 September 2005
The interim dividend paid	7 October 2005
Annual results announced	13 March 2006
Closure of register of members	21-27 April 2006
Annual General Meeting	27 April 2006
Proposed final dividend payable	12 May 2006

Shareholder Information

Company Name	Solomon Systech (International) Limited
Listing Venue	Main Board of the Stock Exchange of Hong Kong Limited
Stock Code	2878
Constituent Stock	Hang Seng Composite Index MSCI Standard Index MSCI Small Cap Index
Business Classification	Industrials
Share Transfer and Registrars	Tricor Investor Services Limited 26/F Tesbury Centre 28 Queen's Road East Hong Kong Tel: (852) 2980 1333 Fax: (852) 2810 8185 Website: www.tricor.com.hk
Corporate Communications	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 Tel: (852) 2207 1111 Fax: (852) 2207 1372
Listing Date & Price	8 April 2004 / HKD1.75
Financial Year End	December 31
Trading Currency	HKD
Authorized Shares	5,000,000,000
Issued Shares	2,511,154,351 (as at 31 December 2005)
Par Value	HKD0.10
Board Lots	2,000

2004 Interim Report

2004 Annual Report

Best of Hong Kong, 19th Annual International ARC Awards – MerComm, Inc.

2005 Interim Report

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