



**SOLOMON
SYSTECH**

SOLOMON SYSTECH

Interim Report 2006

Solomon Systech (International) Limited

solutions in silicon

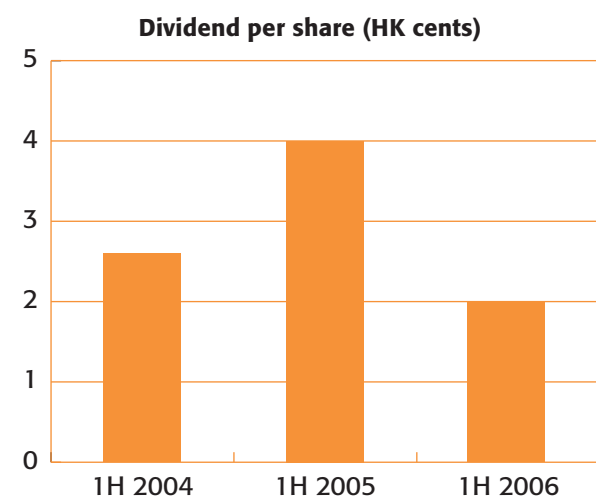
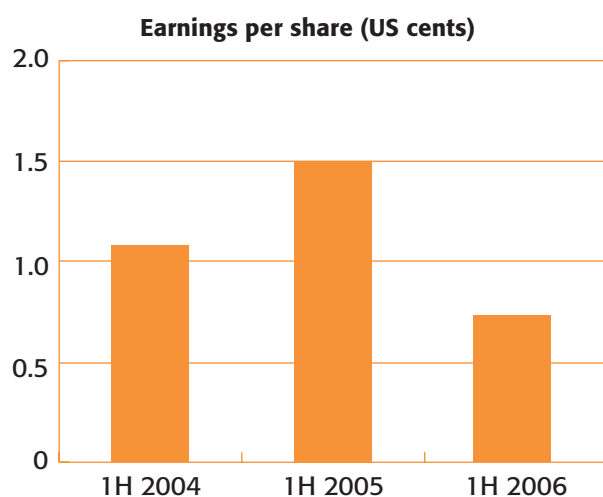
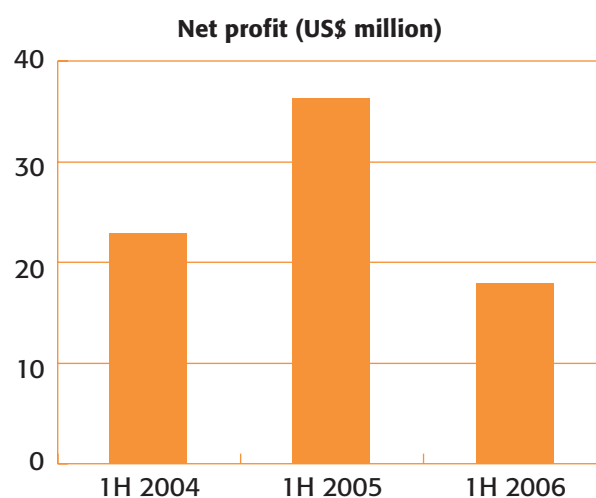
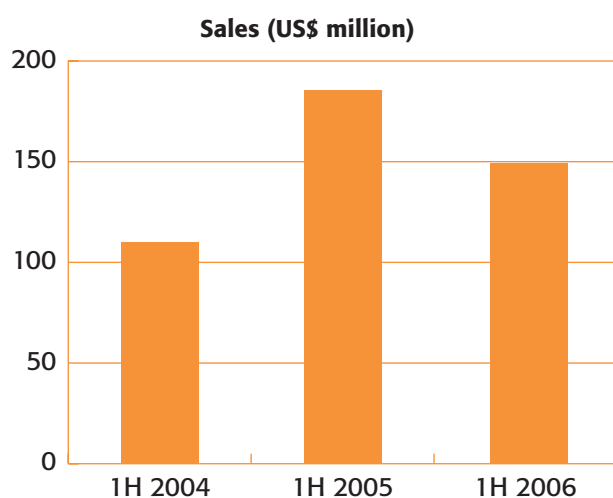
Contents

1	Financial Highlights
2	Interim Dividend
2	Closure of Register of Members
2	Interim Results
3	Condensed Consolidated Profit and Loss Account
4	Condensed Consolidated Balance Sheet
5	Condensed Consolidated Statement of Changes in Equity
6	Condensed Consolidated Cash Flow Statement
7	Notes to the Condensed Consolidated Interim Financial Statements
19	Independent Review Report
20	Management Discussion and Analysis
24	Directors' Interest
26	Substantial Shareholders
27	Share Option Schemes
30	Corporate Governance
31	Supplementary Information
32	Corporate Information
33	Financial Calendar
34	Shareholder Information

Financial Highlights

	Unaudited Six months ended 30 June		
	2006 US\$ million	2005 US\$ million	Change %
Sales	149.4	185.7	-19.5%
Gross profit	37.0	57.9	-36.1%
Net profit	17.9	36.3	-50.7%
Total assets	230.2	238.2	-3.4%
Shareholders' funds	180.1	176.3	+2.2%
(US cents)			
Earnings per share	0.73	1.50	-51.3%
Dividends per share	0.26	0.51	-49.0%

- Unit shipment grew by 16%, year-on-year
- Sales amounted to approximately US\$150 million
- Net profit was about US\$18 million
- Basic earnings per share was 0.73 US cents (5.7 HK cents)
- The Board resolved to declare an interim dividend per share of 2 HK cents (0.26 US cents)



Notes:

- i. Earnings per share calculation is based on the weighted average number of shares for the period.
- ii. Dividend per share calculation is based on the number of outstanding shares at the period end.
- iii. All the numbers presented in the charts are unaudited.
- iv. Due to the IPO in April 2004, the weighted average number of shares for 1H 2004 was 2,088,179,728 (versus the number of outstanding shares as at 30 June 2004: 2,506,254,351).

Interim Dividend

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") have resolved to declare an interim dividend of 2 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 31 August 2006. The interim dividend will be paid on 18 September 2006.

Closure of Register of Members

The Register of Members of the Company will be closed from 28 August 2006 to 31 August 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 25 August 2006.

Interim Results

The Directors are pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 together with the comparative figures for the corresponding period of last year as follows.

Condensed Consolidated Profit and Loss Account

For the Six Months Ended 30 June 2006

	Note	Unaudited	
		Six months ended 30 June	
		2006	2005
		US\$'000	US\$'000
Sales	6	149,415	185,713
Cost of sales		(112,464)	(127,782)
Gross profit		36,951	57,931
Other gain – net		139	10
Research and development costs		(7,882)	(5,563)
Selling and distribution expenses		(1,728)	(1,588)
Administrative expenses		(8,658)	(7,168)
Other operating expenses		(15)	(27)
Operating profit		18,807	43,595
Interest income		3,198	1,270
Finance costs		(1)	(1)
Share of results of an associated company		(400)	(74)
Profit before taxation		21,604	44,790
Taxation	8	(3,712)	(8,486)
Profit attributable to shareholders		17,892	36,304
Dividends	9	6,472	12,912
Earnings per share (expressed in US cents per share)			
Basic	10	0.73	1.50
Diluted	10	0.72	1.50

The notes on pages 7 to 18 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Balance Sheet

As at 30 June 2006

		Unaudited	Audited
		30 June	31 December
	Note	2006	2005
		US\$'000	US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		12,188	11,077
Investment in an associated company		503	903
Available-for-sale financial assets	11	3,902	—
Fixed bank deposit		—	5,000
		16,593	16,980
Current assets			
Inventories		43,682	36,212
Trade and other receivables	12	63,914	59,219
Other financial assets		7,000	1,250
Pledged bank deposits		130	130
Short-term fixed deposits		41,178	37,000
Cash and cash equivalents		57,706	119,479
		213,610	253,290
Total assets		230,203	270,270
EQUITY			
Capital and reserves			
Share capital	14	32,360	32,360
Own shares held		(523)	(605)
Reserves			
Proposed dividend		6,472	48,540
Others		141,811	126,718
		180,120	207,013
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		24	29
Deferred tax liabilities		743	574
		767	603
Current liabilities			
Trade and other payables	13	42,677	56,357
Tax payable		6,629	6,287
Obligations under finance leases		10	10
		49,316	62,654
Total liabilities		50,083	63,257
Total equity and liabilities		230,203	270,270
Net current assets		164,294	190,636
Total assets less current liabilities		180,887	207,616

The notes on pages 7 to 18 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2006

	Unaudited							
	Share capital	Share premium	Own shares held	Merger reserve	Exchange reserve	Equity compensation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
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 differences	–	–	–	–	(15)	–	–	(15)
Exercise of share option	18	363	–	–	–	(66)	–	315
Dividends paid, net of portion for own shares held	–	–	–	–	–	–	(37,906)	(37,906)
Profit for the period	–	–	–	–	–	–	36,304	36,304
Equity compensation	–	–	–	–	–	811	–	811
Equity compensation transferred to share premium	–	1,328	714	–	–	(1,328)	(714)	–
At 30 June 2005	32,297	88,085	(624)	2,082	(56)	1,033	53,472	176,289
At 1 January 2006	32,360	89,355	(605)	2,082	(24)	3,135	80,710	207,013
Exchange differences	–	–	–	–	(24)	–	–	(24)
Dividends paid, net of portion for own shares held	–	–	–	–	–	–	(47,787)	(47,787)
Profit for the period	–	–	–	–	–	–	17,892	17,892
Equity compensation	–	–	82	–	–	3,026	(82)	3,026
At 30 June 2006	32,360	89,355	(523)	2,082	(48)	6,161	50,733	180,120

The notes on pages 7 to 18 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

For the Six Months Ended 30 June 2006

	Unaudited	
	Six months ended 30 June	
	2006	2005
	US\$'000	US\$'000
Net cash (outflow)/inflow from operating activities	(1,321)	59,730
Net cash outflow from investing activities	(12,595)	(22,727)
Net cash outflow from financing activities	(47,791)	(35,832)
(Decrease)/Increase in cash and cash equivalents	(61,707)	1,171
Effect of foreign exchange rate changes	(66)	(15)
Cash and cash equivalents at 1 January	119,479	125,715
Cash and cash equivalents at 30 June	57,706	126,871
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	57,706	126,871

The notes on pages 7 to 18 are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Solomon Systech (International) Limited (the "Company") and its subsidiaries (collectively referred to as "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, Uglund 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 condensed consolidated interim financial statements ("Interim Financial Statements") are presented in US dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the Board of Directors on 3 August 2006.

2. Basis of preparation and accounting policies

These unaudited Interim Financial Statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These Interim Financial Statements should be read in conjunction with the 2005 annual report.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations which are relevant to the Group's operations are mandatory for financial year ending 31 December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intagroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains A Lease

The adoption of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HK(IFRIC)-Int 4 did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations relevant to the Group's operations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, and cash flow and interest rate risk.

(a) 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 based. 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 with 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 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.

4.2 Fair value estimation

The available-for-sale financial assets are stated at fair value. 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.

5. Critical accounting estimates and judgments

Estimates and judgments 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.

5. Critical accounting estimates and judgments (continued)

(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 that 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 that previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

6. Segmental Information

(a) Primary reporting format - business segment

At 30 June 2006, 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\$149,415,000 and US\$185,713,000 for the six months ended 30 June 2006 and 2005 respectively.

(b) Secondary reporting format - geographical segments

The Group mainly operates in the 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

	Unaudited Six months ended 30 June	
	2006 US\$'000	2005 US\$'000
Taiwan	11,437	71,186
Hong Kong	113,034	58,920
Japan	16,641	45,224
Korea	2,446	8,559
Mainland China ("China")	3,577	363
Singapore	1,408	206
United States of America ("U.S.A.")	221	20
Others	651	1,235
	149,415	185,713

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

6. Segmental Information (continued)

(b) Secondary reporting format - geographical segments (continued)

(ii) Total assets

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Hong Kong	181,296	230,519
Taiwan	39,697	32,723
Others	9,210	7,028
	230,203	270,270

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

(iii) Capital Expenditures

	Unaudited Six months ended 30 June	
	2006 US\$'000	2005 US\$'000
Hong Kong	2,618	1,159
China	1,154	30
Taiwan	16	105
Others	19	209
	3,807	1,503

Capital expenditure is allocated based on where the assets are located.

7. Expenses by nature

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

	Unaudited Six months ended 30 June	
	2006 US\$'000	2005 US\$'000
Depreciation of owned property, plant and equipment	2,689	1,982
Depreciation of leased property, plant and equipment	6	3
Operating leases for land and buildings	414	357
Employee benefit expenses		
Equity compensation	3,026	811
Non-equity compensation portion	7,469	7,296
Net exchange (gains)/losses	(17)	57
Provision/(write-back of provision) for doubtful debts	7	(494)
Provision for obsolete inventories	1,271	1,575

8. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. (2005: Nil)

	Unaudited Six months ended 30 June	
	2006 US\$'000	2005 US\$'000
Current taxation:		
Hong Kong profits tax	3,536	8,117
Overseas profits tax	7	—
Deferred taxation	169	369
Taxation	3,712	8,486

9. Dividends

	Unaudited	
	Six months ended 30 June	
	2006	2005
	US\$'000	US\$'000
(a) Dividend attributable to the previous year, approved and paid during the period:		
2004 final dividend, paid, of HK\$0.12 (approximately 1.54 US cents) per ordinary share	—	38,655
2005 final dividend, paid, of HK\$0.15 (approximately 1.93 US cents) per ordinary share (Note (i))	48,540	—
Less: Company's share of dividends paid on the shares held by a special purpose entity of the Group	(753)	(749)
	47,787	37,906
(b) Dividend attributable to the year:		
2005 interim, paid, of HK\$0.04 (approximately 0.51 US cents) per ordinary share	—	12,912
2006 interim, declared, of HK\$0.02 (approximately 0.26 US cents) per ordinary share (Note (ii))	6,472	—
	6,472	12,912
Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	—	(242)
	6,472	12,670

Notes:

- (i) On 13 March 2006, the Directors proposed a final dividend of HK\$0.15 (approximately 1.93 US cents) per ordinary share. The final dividend was paid on 12 May 2006.
- (ii) On 3 August, 2006, the Director declared an interim dividend of HK\$0.02 (approximately 0.26 US cents) per ordinary share which will be payable on 18 September 2006 to shareholders whose names appear on the register of members on 31 August, 2006. The interim dividend is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2006.

10. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US\$17,892,000 (2005: US\$36,304,000).

The basic earnings per share is based on the weighted average of 2,464,909,041 (2005: 2,426,719,229) ordinary shares in issue excluding own shares held during the period.

Diluted earnings per share information is based on 2,489,441,986 (2005: 2,428,155,857) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming the conversion of all share options outstanding but excluding unallocated own shares held during the period. 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.

	Unaudited Six months ended 30 June	
	2006	2005
Weighted average number of ordinary shares in issue	2,464,909,041	2,426,719,229
Adjustments for – allocated own share	23,476,265	–
– share option	1,056,680	1,436,628
Weighted average number of ordinary shares for diluted earnings per share	2,489,441,986	2,428,155,857

11. Available-for-sale financial assets

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Unlisted shares, at cost	4,186	284
Less: Provision for impairment loss	(284)	(284)
	3,902	–

There was no disposal of or impairment provision on available-for-sale financial assets for the six months ended 30 June 2006. All the available-for-sale financial assets are unlisted equity securities.

12. Trade and other receivables

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Trade receivables	60,202	56,146
Less: provision for impairment of receivables	(40)	(33)
Trade receivables - net	60,162	56,113
Prepayments and other receivables	3,752	3,106
	63,914	59,219

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

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
0 - 30 days	48,150	53,997
31 - 60 days	10,934	1,843
61 - 90 days	979	273
91 - 120 days	5	—
121 - 365 days	94	—
	60,162	56,113

13. Trade and other payables

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Trade payables	35,643	43,408
Accrued expenses	7,034	12,949
	42,677	56,357

13. Trade and other payables (continued)

The ageing analysis of trade payables is as follows:

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
0 - 30 days	34,512	42,650
31 - 60 days	151	728
61 - 90 days	980	30
	35,643	43,408

14. Share capital

	Ordinary shares of HK\$0.1 each	
	No. of shares	US\$'000
Authorised	5,000,000,000	64,433
Issued and fully paid:		
At 31 December 2005 and 30 June 2006	2,511,154,351	32,360

15. Equity compensation scheme

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

The Company has adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") at an extraordinary general meeting held on 25 February 2004 and a meeting of the Board on 19 March 2004. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors or 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.

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

(b) *The Share Option Scheme*

The Company adopted the Share Option Scheme (the "Scheme") under which options may be granted to subscribe for the Company's shares. Participants of the Scheme shall include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers or any member of the Group who the Board considers have contributed or will contribute to the Group ("the Participants"). The purpose of the Scheme is to provide Participants with an 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 of Hong Kong Limited (the "Listing Rules").

On 28 June 2006, options to subscribe for 5,500,000 share 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 2007 to 30 June 2009, at the exercise price of HK\$1.98 per share.

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
At beginning of the period	6,100,000	—
Granted	5,500,000	6,100,000
At end of the period	11,600,000	6,100,000

No option under the Share Option Scheme lapsed, or was cancelled or exercised during the period.

15. Equity compensation scheme (continued)

(c) *The Share Award Plan*

The Share Award Plan was adopted by the Company 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 30 June 2006, a net 27,596,000 shares were reserved for named employees leaving a balance of 13,083,520 for future grant to directors and employees in the second half of 2006 and beyond.

Shares held by HSBC Trust as Trustee under the Share Award Plan

	No. of shares
At 1 January 2006	47,055,520
Shares vested during the period	(6,376,000)
At 30 June 2006	40,679,520

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

		No. of shares	
	Cumulative total	1 January to 30 June, 2006	1 January to 31 December, 2005
Granted during the period	35,640,000	15,180,000	16,790,000
Vesting of the shares granted in previous periods	(7,844,000)	(6,376,000)	(1,468,000)
Forfeiture of shares granted during the period	(200,000)	(120,000)	(80,000)
	27,596,000	8,684,000	15,242,000

The Group has followed the HKFRS2 in the financial statements for the period ended 30 June 2006 to account for the equity compensation expenses at appropriate market price at the date of grant.

16. Own share held

Own shares held represents the 40,679,520 (as at 31 December 2005: 47,055,520) ordinary shares in the Company which were not yet granted or vested and were held by the trustees, the Special Purpose Entity, under the Share Award Plan.

17. Commitments

Capital commitments

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

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Contracted but not provided for	99	659

Operating lease commitments

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

	Unaudited 30 June	Audited 31 December
	2006 US\$'000	2005 US\$'000
Not later than 1 year	801	670
Later than 1 year and not later than 5 years	1,385	1,419
Later than 5 years	144	–
	2,330	2,089

Independent Review Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

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

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 18.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 3 August 2006

Management Discussion and Analysis

Financial Review

An Overview

For the six months ended 30 June 2006, the Group's sales was US\$149.4 million (1H 2005: US\$185.7 million). The decline was mainly due to (1) average selling price erosion (2) weak market demand for OLED display and (3) the new business of m-TFT not growing as fast as the Group expected. During the review period, gross profit was US\$37.0 million. Through internal cost reduction measures and ongoing price discussion with contract manufacturers, the Group managed to offset part of the gross margin pressure brought by industry price erosion. For the first half of 2006, the Group's gross margin was about 25%.

Throughout the period, the Group continued to expend on R&D and business development, therefore there was a moderate increase in operating expenses. Coupled with a lower gross profit, the Group's net profit was US\$17.9 million, representing a net profit margin of 12%.

In light of the Group's healthy financial position as well as its cash generative business model, the Board resolved to declare an interim dividend of 2 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 31 August 2006.

Financial Position and Liquidity

Net cash outflow from operations during the period amounted to US\$1.3 million. The Group ended the period with US\$106 million of net cash, comprising all bank deposits, other financial assets, cash and cash equivalents less bank loans. Going forward, the Group intends to use the cash primarily for its product development, investment in securing production capacity, corporate venture investing as well as general corporate purposes. As at 30 June 2006, the Group had no borrowings and there were no charges on the Group's assets. The Group's cash balance was mainly deposited in interest-bearing accounts with reputable financial institutions.

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

Capital Expenditure

Capital expenditure for the period was approximately US\$3.8 million (1H 2005: US\$1.5 million), the majority of which was spent on the purchase of computer hardware and critical manufacturing equipment (in cooperative arrangement with contract manufacturers) to ensure timely product delivery.

During the review period, the Group held no significant investments and did not make any material acquisitions nor disposals of subsidiaries and associated companies.

Capital Commitment and Contingent Liabilities

The Group had no material capital commitments or contingent liabilities as at 30 June 2006.

Business Review

Book to Bill Ratio and Backlog

In the review period, the book to bill ratio stood at 1.05 (1H 2005: 0.93), indicating the business flows are fairly steady. As at 30 June 2006, the Group registered a backlog of orders in excess of 85 million units (as at 30 June 2005: 80 million units) for the second half of 2006.

Product Shipment

The growth of unit shipment in the first half was healthy, representing an increase of 16% year-on-year. For the mobile phone related display IC shipment (i.e. monochrome STN, color STN and m-TFT), the growth was over 20%, comparable to the market trend. Going into the second half of 2006, the Group will concentrate on providing comprehensive services and solutions to customers, launching more new products and defending its market position. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2006	1H 2005	Growth (%)	2005
Monochrome STN	23	18	28%	45
Color STN	81	62	31%	143
m-TFT	12	12	0%	34
OLED	8	16	-50%	40
Miscellaneous	1	—	NA	1
Total	125	108	16%	263

Note: Miscellaneous includes graphic controller, PDA driver ICs, large display driver ICs and others.

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

Total shipment of display ICs in the review period was 125 million units. According to recent forecasts made by iSuppli and Gartner, global shipments of mobile phones for 2006 are expected to be about 930 million units. The Group believes that its global market share in mobile phone display ICs for the first half was close to 20%.

Among the Group's products, monochrome STN display ICs found rising application in low-cost mobile phones and MP3 players, and their shipment grew by 28% to 23 million units. At the same time, color STN ("CSTN") display ICs recorded a solid growth, indicating the Group's strong product offerings in this area. The shipment for the period reached 81 million units, an increase of 31% as compared to the same period in 2005. Mobile TFT ("m-TFT") display ICs shipment remained broadly flat at 12 million units, mainly due to longer than expected design-in cycle time. OLED display ICs showed an unusual annual decline in shipment, because of the weak adoption of OLED display in MP3 players. The shipment of OLED display ICs reduced by half to 8 million units as compared to the same period in 2005. In the first half, the Group shipped small volume of large display TFT driver ICs which, in the Group's opinion, will take more time to be one of the major growth drivers in the future.

Business Relationships

To win new business from existing or potential customers, it is recognized that in addition to competitive pricing, field application support and reliable solutions are equally important. In the first half, the Group added more resources to provide customers with more timely services and support.

For the Display Panel business, the Group currently serves most major display module makers in the world. It is the Group's objective to focus more on approaching ODM (original design manufacturer) and IDH (independent design house) directly so as to achieve better connections with the participants in the value-chain. During the period, the Group gained more business from Korean and Japanese customers, through whom it can broaden its relationship with top-tier mobile phone brand names.

Regarding the Display System business, the Group provides customers with “total display IC solutions” for high volume specific applications. Given this enlarged product offerings, the Group can reinforce its business relationships with existing customers as well as new end-product manufacturers.

Research and Development

In the past six months, research and development costs were approximately US\$7.9 million. To support business growth and to be competitive in the marketplace, the Group will keep on enhancing the features of existing products and developing future products, e.g. high speed interface ICs, LTPS m-TFT display ICs, AM-OLED display ICs and multimedia processors. In the first half of 2006, the Group filed two patents with the United States Patent and Trademark Office and had four technical articles published in international magazines such as *Display Devices* and *EEPW*.

As at 30 June 2006, the Group had over 250 professionals in the design and engineering function, representing approximately 65% of the Group’s total employees. The Group’s R&D team continually designed products using various wafer technologies as advanced as 0.13 μ m.

Human Resources

As at 30 June 2006, the total number of the Group’s employees was close to 370, of which approximately 65% was based in its Hong Kong head office.

As a technology company, the Group highly values its human resources. To reward talent, the Group offers competitive remuneration to employees and constantly provides employees with trainings, career development programs, job satisfaction and a first-rate working environment in the hope that they will enjoy working with the Group and contribute their efforts to the Group’s success. Lately, the Group recruited two senior executives for its operation and corporate development departments.

In the first half of 2006, most employees were granted cash bonuses and Company’s shares in recognition of their performance in 2005. Further, at the Board level, Directors were awarded options for their past and forthcoming contributions to the Group.

Prospects

Following the last year initiative to establish two distinct business units, namely Display Panel and Display System, the Group has made progress and is better positioned to grow its business with products diversification.

Display Panel

Mobile Display

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

As regards the Group’s business in the next six months, it is expected that the growth of monochrome display ICs will likely remain flat. Despite the industry anticipating that m-TFT will gradually replace color STN display technology, the Group maintains a positive view on the 2006 unit shipment of color STN display ICs because (i) the overall demand for color display is relatively healthy (ii) the mobile phone sub display segment is still dominated by color STN and (iii) there is a trend of color STN being adopted in more mid to low-cost mobile phones and MP3 players.

The Group sees two factors that may affect the shipment of m-TFT display ICs in the second half, namely the speed of adoption of the Group's products by its customers as well as the Group's competitors' strategy toward m-TFT business in connection with pricing and market share protection. Going forward, the Group will put more efforts to introduce new and competitive products, and to actively engage ODM, IDH and module makers in exploring business opportunities.

About OLED display ICs, there may be a slight recovery in the second half subject to sales momentum of MP3 players. Nevertheless, OLED display ICs have been used in mobile phone main display and the Group will look at more new application opportunities, for instance, MP4 and notebook sub display.

Large Display

The Group continuously works with a few large panel makers in Japan and Greater China region on new design-ins. An ongoing project between the Group and one of its customers in Japan is underway.

In light of the merger of AU Optronics Corp. ("AUO") and Quanta Display Inc. ("QDI") announced in April 2006, the Group considers the merger is positive to its large display business as the merged entity will be a bigger potential customer to the Group and the Group has been working with AUO in the past on the mobile display area. However, as AUO has a number of large display driver ICs suppliers already, it will pose an uncertainty to the Group's near-term business. Despite such uncertainty, the Group will devote more resources to this business and aims to establish itself as a preferred supplier to the new AUO/QDI entity.

New Display

Two favorable developments are the volume shipment of microdisplay ICs and the forthcoming commercialization of bistable display ICs. For the former, the Group shipped thousands of units in the past six months to Kopin Corporation for their "Video On-the-Go" technology eyepiece. This new technology has drawn market attention and the eyepiece products, consisting of binocular display modules where the Group's microdisplay ICs are used, are for sale in the market. As for bistable display ICs, the Group has completed the product design and applied it to end-product application of electrophoretic display. The bistable display ICs are ready for mass production in the second half.

Display System

Display System ICs are aimed for high growth applications. This business unit is developing three product families, namely high speed interface IC, controller and multimedia processor. High speed interface IC deals with connectivity inside a mobile phone, TV or other portable consumer products, such connectivity examples are MDDI, MIPI and LVDS. Regarding controller, the Group launched image processor for portable products and timing controllers for PC monitors, TV and soon for notebook computers. In the area of multimedia processor, the Group expects products developed for high volume applications to be introduced towards the end of this year or early 2007.

Display System will speed up its products development through strategic alliance, business cooperation and core IP rights acquisition. With the development of Display System business, the Group can further its relationship with customers by offering them "total display IC solutions". In the long run, the Group believes this business will bring in strong sales growth and a more balanced business mix.

Directors' Interest

As at 30 June 2006, the interests and short positions of each director and the chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HK\$0.10 each in the Company as at 30 June 2006						
Name of Director		Directly Owned		Beneficially Owned	Total	Percentage
		Shares	Options ^(vi)	Shares		
Chang Ching Yi, Steven	Long position	1,800,000	1,300,000	—	3,100,000	0.12%
	Short position	—	—	—	—	—
Choy Kwok Hung, Patrick	Long position	1,100,000	1,000,000	—	2,100,000	0.08%
	Short position	—	—	—	—	—
Huang Hsing Hua	Long position	7,168,000	800,000	2,192,000 ⁽ⁱ⁾	10,160,000	0.40%
	Short position	—	—	2,192,000 ⁽ⁱ⁾	2,192,000	0.09%
Kao Kuen, Charles	Long position	500,000	1,000,000	—	1,500,000	0.06%
	Short position	—	—	—	—	—
Lai Woon Ching	Long position	26,489,600	800,000	2,592,000 ⁽ⁱⁱ⁾	29,881,600	1.19%
	Short position	—	—	2,592,000 ⁽ⁱⁱ⁾	2,592,000	0.10%
Lam Pak Lee	Long position	25,800,000	1,300,000	—	27,100,000	1.08%
	Short position	—	—	—	—	—
Leung Kwong Wai	Long position	110,240,001	1,300,000	10,250,000 ⁽ⁱⁱⁱ⁾	121,790,001	4.85%
	Short position	—	—	10,250,000 ⁽ⁱⁱⁱ⁾	10,250,000	0.41%
Lo Wai Ming	Long position	28,328,000	800,000	4,192,000 ^(iv)	33,320,000	1.33%
	Short position	—	—	4,192,000 ^(iv)	4,192,000	0.17%
Sun, Patrick	Long position	—	1,300,000	—	1,300,000	0.05%
	Short position	—	—	—	—	—
Wong Yuet Leung, Frankie	Long position	—	1,000,000	—	1,000,000	0.04%
	Short position	—	—	—	—	—

(i) Out of the 2,192,000 Shares held by Mr. Huang

- a. 1,600,000 Shares are subject to lock-up and shall be released in two equal tranches of 800,000 Shares each on 8 April 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. 592,000 Shares are subject to a two years 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 2,592,000 Shares held by Mr. Lai

- a. 2,000,000 Shares are subject to lock-up and shall be released in two equal tranches of 1,000,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and
- b. 592,000 Shares are subject to a two years vesting period and held by the Trustee for the benefit of Mr. Lai under the Share Award Plan of the Company.

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- (iii) Out of the 10,250,000 Shares held by Mr. Leung
- a. 6,000,000 Shares are subject to lock-up and shall be released in two equal tranches of 3,000,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan; and
 - b. 4,250,000 Shares are subject to a two years 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 4,192,000 Shares held by Mr. Lo
- a. 3,600,000 Shares are subject to lock-up and shall be released in two equal tranches of 1,800,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and
 - b. 592,000 Shares are subject to a two years 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 Option Schemes" below for more details).

Saved as disclosed above, at no time during the period, 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 corporation required to be disclosed pursuant to the SFO.

At no time during the period was the Company, its subsidiaries or its associated company 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 company 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

The register of substantial shareholders required to be kept under section 336 of the SFO shows that as at 30 June 2006, 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 the chief executive of the Company.

Ordinary shares of HK\$0.10 each in the Company				
	Capacity	Long/Short Position	Number of Shares	Percentage of the issued share capital of the Company
Genesis Fund Managers, LLP	Investment Manager	Long	216,675,500	8.63%
Government of Singapore Investment Corporation Pte. Ltd	Investment Manager	Long	127,796,800	5.09%
JPMorgan Chase & Co.	Beneficial owner	Long	604,000	7.91%
	Investment Manager		84,192,000	
	Custodian corporation/approved lending agent		113,919,635	
			198,715,635	
	Custodian corporation/approved lending agent	Short	113,919,635	4.54%

Save as disclosed above, the Company was not notified of any interest or short positions in the shares or underlying shares of the Company as at 30 June 2006.

Share Option Schemes

Share options have been granted to directors and senior management of the Group under the Share Option Scheme approved by shareholders of the Company at an Extraordinary General Meeting on 25 February 2004.

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 benefits of the Group with a flexible mean of either 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 Listing Rules.

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

The options were granted 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.

The exercise price of the options granted under the Share Option Scheme shall be equal to or higher than the market price of the shares on the date of the grant. Each option gives the holder the right to subscribe for one share of the Company. Options to subscribe for 5,500,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme on 28 June 2006. The options are exercisable at the exercise price of HK\$1.98 per share, starting 1 July 2007 and will lapse on 1 July 2009.

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 all the share option schemes does not in aggregate exceed 10% of the shares in issue as at 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.

Share Option Schemes (continued)

As at 3 August 2006, options to subscribe for a total of 11,600,000 option shares were still outstanding under the Share Option Scheme which represents approximately 0.46% of the issued ordinary shares of the Company.

Details of the share options outstanding as at 30 June 2006 which have been granted under the Share Option Scheme are as follows:

Name of Participants	Number of options			Held on 30 June 2006	Exercise price HK\$	Grant date	Exercise period		
	Held on 1 January 2006	Granted during the period	Exercised during the period				Begins	Ends	
Executive and Non-executive Directors									
	Lam Pak Lee	800,000	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
		–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	800,000	500,000		1,300,000					
Chang Ching Yi, Steven	800,000	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	800,000	500,000		1,300,000					
Wong Yuet Leung, Frankie	500,000	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	500,000	500,000		1,000,000					
Leung Kwong Wai	800,000	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	800,000	500,000		1,300,000					
Huang Hsing Hua	300,000	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	300,000	500,000		800,000					
Lai Woon Ching	300,000	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	300,000	500,000		800,000					
Lo Wai Ming	300,000	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008	
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009	
	300,000	500,000		800,000					
Subtotal	3,800,000	3,500,000		7,300,000					

Name of Participants	Number of options			Exercise period				
	Held on 1 January 2006	Granted during the period	Exercised during the period	Held on 30 June 2006	Exercise price HK\$	Grant date	Begins	Ends
Independent Non-executive Directors								
Choy Kwok	500,000	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
Hung, Patrick	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	500,000		1,000,000				
Kao Kuen, Charles	500,000	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	500,000		1,000,000				
Sun, Patrick	800,000	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	800,000	500,000		1,300,000				
Subtotal	1,800,000	1,500,000		3,300,000				
Senior Management								
Senior management	500,000	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	–	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	500,000		1,000,000				
Subtotal	500,000	500,000		1,000,000				
Total	6,100,000	5,500,000		11,600,000				

No option under the Share Option Scheme lapsed, or was cancelled or exercised during the period.

Valuation of options

According to the Black-Scholes Model, the fair value of the option granted during the period is as follows:

Date of Grant	28 June 2006	14 June 2005
Closing price at date of grant	HK\$1.75	HK\$2.675
Option value	US\$215,000	US\$503,000

The value of options granted during the period determined using the Black-Scholes valuation model was US\$215,000 (2005: US\$503,000). The significant inputs into the model were share price of HK\$1.75 (2005: HK\$2.675) at the grant date, exercise price shown above, expected life of options of 2 years, expected dividend paid out rate of 10.86% (2005: 8.34%) and annual risk-free interest rate of 4.63% (2005: 3.08%). The volatility of 53.8% measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from 29 June 2005 to 28 June 2006, the option grant date.

Corporate Governance

Corporate Governance is highly regarded within the Group. The Group keeps abreast of the best practices in the corporate governance area and strives to implement such practices as appropriate. At present, the roles of Chairman and the Chief Executive Officer (in the case of the Group, the Managing Director) are separated. In addition, Non-Executive Directors (“NEDs”) are appointed for a specific term up to 30 June 2008, subject to re-election according to the procedures set out in the Company’s Articles of Association. NEDs are encouraged to take educational courses at the expense of the Group on duties of the Board and corporate governance. The above-mentioned practices were well implemented and basically follow the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all the Code Provisions set out in the Appendix 14 of the Listing Rules. As at 30 June 2006, Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee had been formed with their respective terms of reference in force.

Compliance with the Model Code

The Company also established its own written guidelines on securities transactions by Directors and relevant employees (“Guidelines”) on no less exacting terms than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (“Model Code”). Having made specific enquiry of all Directors of the Company, during the six months ended 30 June 2006, all of them were in compliance with the Guidelines.

Supplementary Information

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

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

Audit Committee

The Audit Committee is composed of a majority of Independent Non-Executive Directors. The Audit Committee, alongside the newly recruited corporate audit personnel, has reviewed with the management and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2006.

Investor Relations and Communications

The Group recognizes the rights of shareholder to know more about its business and prospect, and therefore it has always taken a proactive approach to communicate with the investment community, for example institutional investors, sell-side analysts and retail investors. In January, the Group participated in two IR related events, namely "CLSA Industrial Access Day" and "IC Design House Corporate Day". Immediately after the annual results announcement in March, the Group held a number of one-on-one meetings in Hong Kong and Singapore, and subsequently attended the "Asian Investment Conference 2006" organized by Credit Suisse. In an attempt to broaden investor base, the Group also initiated a trip to Tokyo and met potential investors there in April.

Apart from the above, the Group held more than 100 meetings and conference calls with investors and analysts in the first half of 2006. To enhance the Group's profile among the general public in Hong Kong, there were 4 interviews made with TV and 15 featured articles with newspapers and magazines.

Stakeholders of the Company are recommended to visit the Group's website (www.solomon-systech.com) from time to time, where up-to-date information of the Group can be accessed.

Publication of Interim Results on the Stock Exchange's Website

The Company will submit to the Stock Exchange on 3 August 2006 the financial information required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules.

On behalf of the Board

Solomon Systech (International) Limited

LEUNG Kwong Wai

Managing Director

Hong Kong, 3 August 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

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Shatin, N.T. Hong Kong

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Fax: (852) 2267 0800

Website

www.solomon-systech.com

Principal Bankers

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Hua Nan Commercial Bank, Ltd

JPMorgan Chase Bank, N.A.

Standard Chartered Bank (Hong Kong) Limited

Auditors

PricewaterhouseCoopers

Solicitors

Richards Butler

Financial Calendar

Announcement of interim results	3 August 2006
Ex-dividend date	24 August 2006
Closure of register of members	28 – 31 August 2006
Payment of interim dividend	18 September 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
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. Tel: (852) 2207 1111 Fax: (852) 2207 1372
Listing Date and Price	8 April 2004 / HKD 1.75
Financial Year End	31 December
Trading Currency	HKD
Authorized Number of Shares	5,000,000,000
Issued Shares	2,511,154,351 (as at 30 June 2006)
Par Value	HKD 0.10
Board Lots	2,000 shares