Solomon Systech (International) Limited

HKSE : 2878

Annual Report 2007

SOLOMON SYSTECH

LOOK CLOSER AT OUR BROADENING CAPABILITIES

solutions in silicon

CONTENTS

Building on our foundation, and our experience and expertise in the display industry, we extend our capability technologically from display ICs to system ICs and strategically from component sales to solution-based business, to cover a bigger market and create more opportunities as we are determined to bring added values to customers and long term benefits to stakeholders.

SEEING THE BIGGER PICTURE FOR A BRIGHTER TOMORROW

Corporate Profile

Solomon Systech (International) Limited and its subsidiaries as a Group, is a leading semiconductor company providing display IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs and other innovative consumer electronic products.

Vision

Provide the ultimate silicon solution for every display system

Core Values

Our corporate core values lie on the 5 'I's foundation:

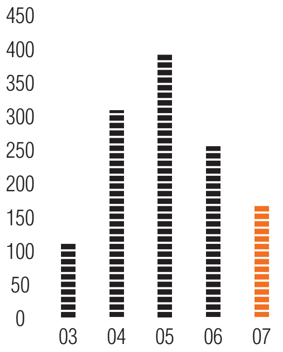
- **Industry Talents –** Our most important asset
- **Innovation –** Put us at the forefront of the industry
- **Institutionalization –** Structure our "work" for persistent growth
- **International Partnership –** Commercialize our technology in global market
- **Integrity –** Build us a reserve of trust and goodwill

FINANCIAL HIGHLIGHTS

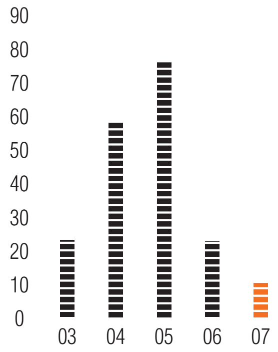
	2007 US$ million	2006 US$ million	Change
Sales	**165.0**	254.1	-35%
Gross profit	**39.5**	59.3	-33%
Net profit	**10.2**	22.4	-54%
Total assets	**202.4**	221.1	-8%
Shareholders' funds	**172.1**	179.9	-4%
US cents			
Earnings per share	**0.42**	0.91	-54%
Dividends per share	**0.39**	0.77	-49%

- Sales amounted to US$165 million
- Net profit was US$10 million
- Basic earnings per share was 0.42 US cent (3.3 HK cents)
- The Board proposed a final dividend per share of 2 HK cents (0.26 US cent)
- Total dividends per share of the year totaled 3 HK cents (0.39 US cent)
- Book to bill ratio for the year ended 31 December 2007 was 0.64

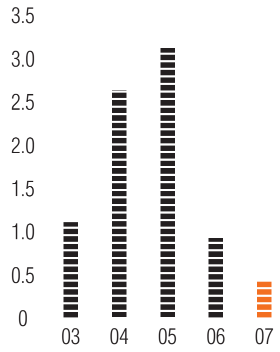
Sales
(US$ million)



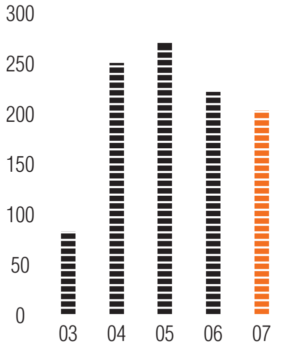
Net Profit
(US$ million)



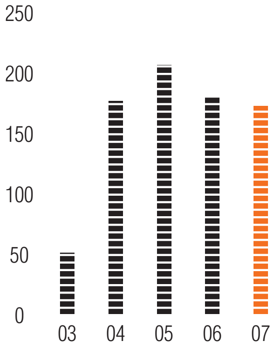
Basic Earnings per Share
(US cents)



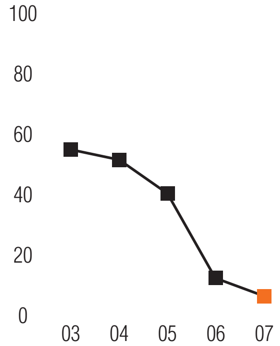
Total Assets
(US$ million)



Shareholders' Funds
(US$ million)



Return on Equity
(%)



THROUGH ADVERSITY OUR DETERMINATION GROWS STRONGER

In the face of adversity, we continue to invest in research and development as we believe innovation is the key to success for a technology company.

R&D Expenses

2007:

US$19.7 Million

2006:

US$17.4 Million

Change:

+13%

CHAIRMAN'S STATEMENT

SUN, Patrick
Chairman

In the Chairman's Statement of our 2006 Annual Report, I expressed my view that 2007 would be a mix of challenges and opportunities for Solomon Systech. We intended to grow our business through partnership, strategic investment, M&A and business diversification in facing challenges from the rapidly changing market conditions.

As Chairman of the Board, I continue my role in leading fellow members to review the Company's strategies and directions, and work on enhancing external relations and corporate governance, in recognizing and balancing the interests of all stakeholders including the Company, shareholders, employees and the community.

Business Diversification and Strategic Investment

When technology advances so rapidly and new electronic products turnaround in the market so fast, Solomon Systech undergoes a major transformation and takes on a new position in the supply chain to support the consumer electronics industry. We have expanded our technological capabilities in terms of product offerings from display ICs to system ICs, which means from supporting peripherals to supporting the core components of many applications. We have broadened our business scope to delivering total system solutions which include both hardware and software support. We have turned our IC business into a solution-based business that creates new values to customers. In 2007, special attention was paid to growing and accelerating development of the Display System Solutions business. Furthermore, we also acquired an Independent Design House ("IDH"), which became the Group's subsidiary to speed up advancement in business coverage.

The ultimate goal of the transformation is to provide time-to-market solutions, widen our business scope, expand our customer base and bring long term benefits to stakeholders.

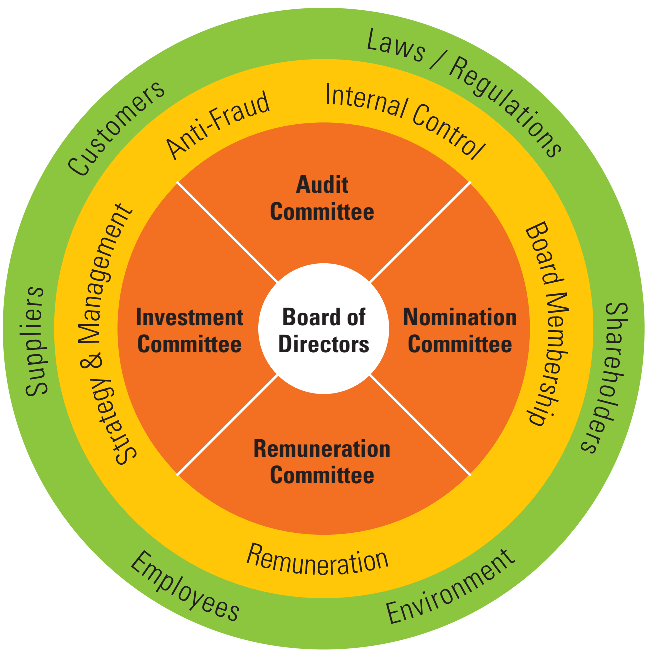
BROADENING CAPABILITIES BROADENING HORIZONS

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 implementation of the business strategy of the Group and ensure that effective corporate governance practices are always in place and diligently implemented.

As at 31 December 2007, the Board comprised 11 directors, of whom 5 are executive directors, 2 are non-executive directors and 4 are independent non-executive directors. On 29 February 2008, Professor KAO Kuen, Charles ("Prof. Kao") tendered his resignation as an Independent Non-executive Director of the Company with effect from 1 March 2008. He continues to serve the Company as an honorable adviser. On behalf of the Board, I would like to take this opportunity to express my gratitude to Prof. Kao for his past contribution to the Company.

Under the Board, there are four committees – the Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee. Led by different members of the Board, each committee is dedicated to



Solomon Systech's Corporate Governance Structure achieving and maintaining high corporate governance standards, which are critical to safeguarding the integrity of the Company's operations and maintaining investors' trust in the Company.

Regarding internal control, in addition to a corporate audit function, the Group has an Anti-Fraud policy in place since 2006 to encourage employees to report any concerns, including misconduct, impropriety or fraud to senior management or the Anti-Fraud Management Team.

As the Group commits to high standards in corporate governance practice, we continued to earn market recognition from stakeholders in 2007:

- The Asset's Rising Star in Corporate Governance in Asia 2007
- IR Magazine Awards 2007, Grand Prix for Best Overall Investor Relations by a Hong Kong Company – *small or mid-cap*
- IR Magazine Awards 2007, Best Annual Report and Other Corporate Literature – *small or mid-cap*

It is our honor to receive these awards. At the same time, it is also a great encouragement for us to keep up our work in providing accurate, timely and trustworthy information to our stakeholders.

Environmental Achievement

I am pleased to see Solomon Systech Limited earned ISO14001 certification in 2007, meaning it has in place a quality and environmental management system that enables it to develop and implement management and operational policies taking into account legal requirements for protecting the environment and minimizing pollution. This is the full commitment of our staff at all levels and from different functions of the organization, heeding the need to balance between the social and economic needs of the community. As a socially responsible company, Solomon Systech continuously gives priority to caring about the community and environmental responsibilities. More details of the Group's activities can be found in the "Social Responsibility" section.

BSI ISO 9001 FS 54224 BSI ISO 14001 EMS 524601

Shareholder Value

The Group's net profit in 2007 was US$10.2 million and shipped some 173 million units of display IC. Shipment of products employing mature technologies decreased and the shipment of products enabled by latest and new technologies were picking up. As a whole, the Group had around 11% share in the global mobile display IC market last year.

In light of the Group's net profit achieved and rich cash position for the year, the Board resolved to declare a final dividend of 2 HK cents per share. Total dividend payout was over 92% of earnings. The Group will review its expansion plans and cash position from time to time to ensure it has an optimum capital structure that promises to maintain a good balance between the interests of shareholders and the Group's business needs.

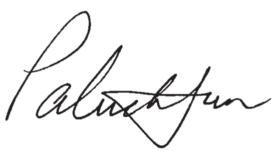
In 2007, the Group conducted share buybacks of total 57.4 million shares. The aim of the initiatives was to enhance the return on equity for the best interest of the Company and the shareholders.

Prospects

According to the forecast of iSuppli in late December 2007: *"Global semiconductor sales in 2008 will be negatively impacted by rising energy costs. Furthermore, the sub-prime mortgage crisis is dimming the economic outlook for the United States next year. This will have global repercussions, impacting demand in other nations. Semiconductor market conditions will be extremely weak in the first half of 2008. Global chip revenue during the first six months of the year will decline to $135.9 billion, down 4.5 percent from $142.3 billion in the second half of 2007."* However, iSuppli still expects 2008 to be overall a positive year for the semiconductor market, rosy in particularly in the second half of 2008.

Due to proliferation of display applications, our target display IC market should grow above the semiconductor industry average. We will continue to invest into R&D. In the meantime, we will remain attentive to the global market changes and customer relationship.

Apart from the stringent global semiconductor market outlook, our new business, which is critical to our long term sustainable growth, may take longer time to generate significant returns. 2008 will still be another challenging year for the Group. We shall continue to broaden our capabilities and fortify our business through strategic investment and appropriate business partnership. I believe opportunities belong to those who can manage and drive changes, and we are here to make this happen.



SUN, Patrick
Chairman
Hong Kong, 27 March 2008

MANAGING DIRECTOR'S REVIEW

LEUNG Kwong Wai, Humphrey
Managing Director

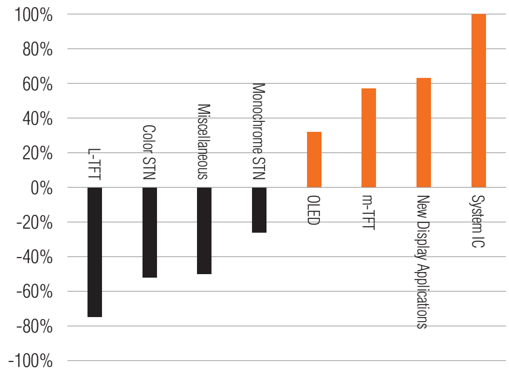
Our IC Business

The Group faced several key market challenges in 2007 including technology migrations, longer that expected pick up time for new businesses and business setback experienced by a major customer. These situations had made direct impact on the Group's performance for the year. The Group recorded sales at US$165 million. Without reducing R&D expenses, the operating profit were maintained above the line at US$5.7 million and the gross profit margin was kept at 23.9%, among the industry average level, as the Group has taken proactive actions as follows:

1. **Key Account Strategy:** The industry is undergoing supply chain realignment. To enhance business development and customer relationships, the Group strategically focused resources on developing key customer accounts starting from the beginning of 2007. Each key account identified is served by a dedicated support team, including an account champion, technical and field application support and quality assurance personnel, to provide timely service to customers as well as open more opportunities for specific projects.

2. **Market and Product Diversification:** Facing to the challenging market situations, we continued to expand our IC product portfolio for different kinds of display technologies (m-TFT, OLED, E-paper, microdisplay) so as to diversify our product applications from mobile phones to many more other applications such as MP3 and MP4 players, portable media players, Bluetooth headsets, personal navigation devices (for global positioning system "GPS"), digital photo frames and electronic shelf labels, etc. The market and product diversification strategy will enable the Group to balance the opportunities and risks that may appear in different market or technology segments. As stated in our 2007 interim report, some display technologies like monochrome and color STN ("CSTN") would continue to decline as technology migrates. For the entire year, demand for our monochrome display ICs and CSTN display ICs had a significant drop of 26% and 52% respectively in unit shipment against 2006. Although the mobile TFT ("m-TFT") business grew 57% in unit shipment, the business was limited by the panel supply shortage. As a result, our share in the global mobile display IC market stayed at around 11%. Details of the performance of each particular business unit will be discussed in the Business Performance and Outlook section.

Unit Growth % of Product Families



LOOKING AFTER ALL CONCERNED

BUILDING FOR THE FUTURE

3. **Customer Base and Application Expansion:** Since 2005, we started to introduce system ICs like graphic controllers and image processors as complementing ICs for enriching images of a display. In 2007, the first million units of image processor were shipped for digital photo frame application, testifying to our effort in expanding the customer base from display module makers to end-product manufacturers for specific high-volume applications. Meanwhile, our multimedia processor, which is the core of many consumer electronic applications, has entered its final stage of development. A completed demonstration system of mobile digital TV riding on this multimedia processor was unveiled at the 2008 Consumer Electronics Show ("CES") in Las Vegas. This multimedia processor will play an important role in supporting our new solution-based business, which I will explain more in the following paragraphs.

4. **Partnerships for Specific Business:** We continued the strategy of partnering with key players for specific business like new display, large display and display connectivity (MIPI[1]). We also partner with system design houses for our total system solution offerings. The partnership strategy has allowed us to align with the interest of our customers, stay close to the end-market requirements and share common development resources.

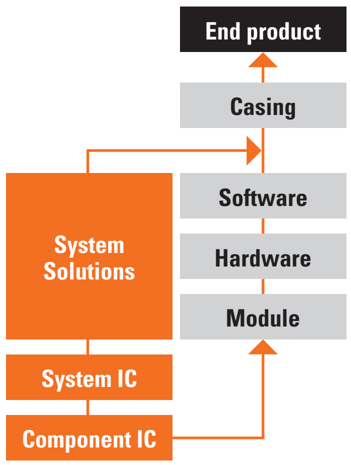
5. **Quality and Productivity Improvement:** Apart from strengthening our market foothold, quality and productivity improvement was also being taking care of for continuous improvement in customer satisfaction and cost reduction. Two important programs, namely Quality Delivery Program and Manufacturing Excellence Program, were developed and implemented successfully in 2007, which have efficiently shortened product delivery cycle time and improved production yield for various product lines. The achievements brought the Group the Grand Award of 2007 Hong Kong Awards for Industries under the Productivity and Quality category.

Receiving the 2007 Hong Kong Awards for Industries – Productivity and Quality Grand Award from the Honourable Donald Tsang, Chief Executive of the HKSAR

1. MIPI – Mobile Industry Processor Interface

Invest Into the Future

The Group places a heavy emphasis in research and development ("R&D") as we believe this is the key to success for a technology company like us. The R&D expenses in 2007 was US$19.7 million (2006: US$17.4 million), increased 13% from 2006. Resources were directed on to building the Group's capabilities to support the solution-based business.



Solution-based Business Model

In 2007, Solomon Systech took a major leap with its business model to offer solution-based business. On top of offering IC components, the Group provides solutions to customers comprising completed reference designs, and hardware and software for targeted applications such as mobile digital TV ("MDTV"), personal navigation device ("PND") and portable media player ("PMP"), etc. This new business model will allow fast turnaround of new end-product designs and speeds up time-to-market for customers.

To support this business, the Group expanded the Display System Business Unit workforce to over 100 staffs – strong to cover from system design, IC design, product engineering to software and hardware development for end products. To maximize the cost-effectiveness of our resources and local expertise, specialized teams of different technical know-how are located in our Hong Kong, Singapore and Shenzhen Technology Centers respectively. In addition to expanding its pool of talents and expertise, the Group increased stakeholding in IDH partner during the year and turned it into a subsidiary. I shall expect more strategic investment to speed up and help to fan out more system solutions timely to the market place.

The solution-based business has strategic importance to the Group in providing time-to-market end product system solution to our customers. It will enhance our position in the supply chain, create values for both customers and end users, and ultimately enlarge our revenue stream.

Look Ahead

As the Managing Director, I am also responsible for building company culture and nurturing future leaders to support the Group's continuous and sustainable growth. Leadership training programs had been organized for our managers in the last few years. CEO Sharing sessions and informal meetings were set up in 2007 to facilitate and encourage more two ways communications. The aim of these activities is to groom new leaders to support our future development.

Taking into account the current sluggish semiconductor market, intensely competitive market and the challenges of gaining foothold in new markets, 2008 will be another challenging year for the Group. Mobile display business will remain the key driver of the Group's business in 2008, with support especially from the emergence of more new audio/video applications. As our solution-based business grows, it will bring us business growth momentum in the coming year and beyond, though its contribution to our business in 2008 will depend on the market response. All in all, we understand, we are prepared and we are determined to manage risk effectively to take Solomon Systech into a new era.

LEUNG Kwong Wai, Humphrey
Managing Director
Hong Kong, 27 March 2008

2007 AWARDS

- **IR Magazine Awards 2007, Grand Prix for Best Overall Investor Relations by a Hong Kong Company –** *small or mid-cap*
- **IR Magazine Awards 2007, Best Annual Report and Other Corporate Literature –** *small or mid-cap*
- **2007 International ARC Awards –** *the World's Best Annual Reports Gold Winner in Technology Consulting category*
- **The Galaxy Awards 2007, Gold Award –** *Annual Reports (Electronic Manufacturing)*
- **The Asset's Rising Star in Corporate Governance in Asia 2007**
- **Grand Award of 2007 Hong Kong Awards for Industries –** *Productivity and Quality*
- **2007 China Chip Award –** *Best Market Performance Honour*
- **2007 EDN China Innovation Awards –** *Leading Product Winner (Analog/Mixed Signal IC)*
- **2007 EDN China Innovation Awards –** *Leading Product Winner (Consumer Electronics IC)*
- **Caring Company 2007/2008**

FINANCIAL REVIEW

Overview

For the year ended 31 December 2007, the book to bill ratio stood at 0.64 (2006: 1.0). The Group encountered challenging market conditions with its driver IC shipment initially being constrained by TFT LCD panel supply shortage, and eventually experienced sluggish demand as consumer spending began to slump resulting from the US subprime mortgage issue and the China tightened credit control. Moreover, the Group was also affected by reduced business from a major customer. In the meantime, sales increase to new customers and of new businesses yet to mature was unable to offset the drop.

Sales and Profit

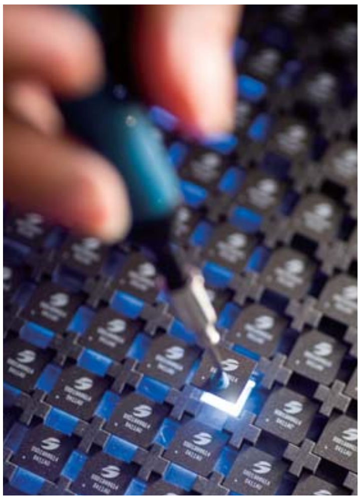
The Group's sales amounted to US$165 million (2006: US$254 million). The decline was mainly due to (1) average selling price erosion of 14%; (2) small-medium size TFT LCD panel supply shortage in 2Q07 and 3Q07; (3) demand slowdown in 4Q07 at the impact of the US subprime mortgage issue and the China tightened credit control; and (4) the new business of New Display and Display System Solution did not take off as quickly as the Group had expected. Gross profit at US$39.5 million was 33% lower year-on-year as a result of the lower unit shipment and average selling price. The Group's effort to lower manufacturing cost had maintained gross profit margin. The gross profit margin for the year was 23.9% (2006: 23.3%).

Total operating expenses were 7.0% lower than 2006's. R&D expenses rose 13.3% because more resources were deployed for business operation and product development. To offset this increase in R&D expenses, the Group took proactive cost control measures and reduced SG&A expenses by 19.9%. Operating profit was US$5.7 million from the lower gross profit. Interest income has become an important element of the Group's profit especially in the second half of 2007 when operating loss was incurred. Buoyed by around US$8 million of interest income, the Group's profit before tax was US$12.9 million. Net profit for the year was US$10.2 million (2006: US$22.4 million).

Liquidity and Financial Resources

Net cash flow from operations during the year was US$35 million. Total cash and bank deposits of the Group amounted to US$138 million at year-end, compared to US$122 million as at 31 December 2006. The change in cash position was mainly a result of (1) dividends paid of US$16 million; (2) fixed asset purchase of US$0.9 million; and (3) corporate strategic investment of US$2.6 million. The Group conducted eighteen share buybacks that consumed US$5.9 million and cancelled 57.4 million shares. Regarding the cash reserves, the Group will continue to invest primarily in product development, to secure production capacity, and to invest in corporate ventures while keeping a certain level of cash to meet general corporate purposes. As at 31 December 2007, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts.

All of the Group's trade receivables and most of its payables are quoted in US dollars. The Group closely monitors foreign exchange rates, it also constantly seeks 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 to be insignificant.



In light of the Group's net profit and relatively rich cash position, the Board of the Company resolved to declare a final dividend of 2 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 8 May 2008. In summary, the full year dividends per share of 3 HK cents represent a payout ratio of approximately 92%, or a yield of 3% based on the average daily closing price of HK$1.02 for 2007.

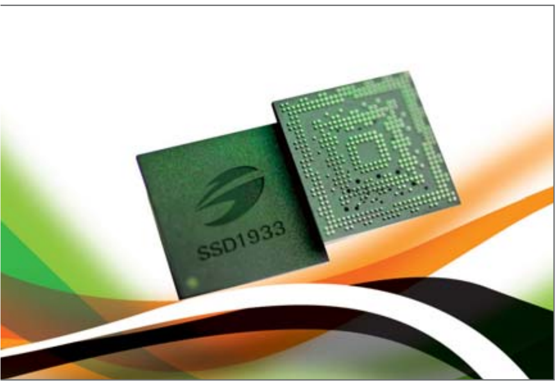
Capital Expenditure and Contingent Liabilities

In 2007, the Group spent a total of US$3.5 million in capital expenditure, of which US$0.9 million belonged to fixed asset purchase and US$2.6 million belonged to strategic investment. Fixed asset purchase primarily consisted of spending on 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 part of the production equipment are consigned to sub-contractors. As at 31 December 2007, the Group had no material capital commitments or contingent liabilities.

BUSINESS PERFORMANCE AND OUTLOOK

Product Shipment

The Group shipped 173 million units of display IC (2006: 230 million units). The shipment of monochrome STN and color STN display ICs decreased as the mobile phone market had shifted its demand to mobile TFT display ICs. M-TFT display ICs shipment recorded a solid growth of 58% to 29.8 million units, reflecting that the design-in activities of this product family was progressively turning into mass production. The shipment of OLED display ICs showed a growth of 32% to 29.1 million units as the OLED display market partially recovered from the slide in 2006 and the display technology continued to find new applications. The Group continued to strengthen its leadership in New Display IC to achieve additional design-wins beyond the mobile phone application such as electronic shelf label. Small volumes of large display TFT driver IC were shipped as the Group continued to engage with targeted panel manufacturers. Display System ICs exceeded the milestone of one million unit shipment in 2007.



According to market surveys conducted by IDC and Strategy Analytics, global shipment of mobile phones for 2007 ranged between 1,120 and 1,140 million units. The Group believes its global market share in mobile phone display ICs was around 11%.

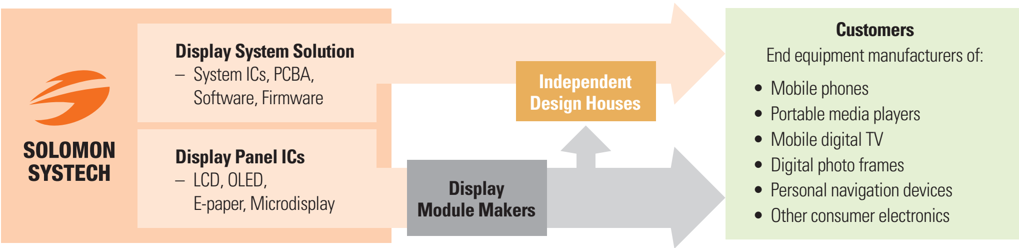
Units Shipped (million)	2007	2006	Change
Monochrome STN	**32.2**	43.3	-25.6%
Color STN	**63.7**	133.6	-52.3%
m-TFT	**29.8**	18.9	+57.7%
OLED	**29.1**	22.0	+32.3%
New Display Applications	**16.8**	10.3	+63.1%
System IC	**1.2**	–	+%
L-TFT	**0.2**	0.8	-75%
Miscellaneous	**0.4**	0.8	-50%
Total	**173.4**	**229.7**	**-24.5%**

Note: Miscellaneous includes PDA driver, microdisplay controller and others.

Business Relationship

The industry is going through supply chain realignment. To enhance business development and customer relationship, the Group strategically focused resources to develop key customer accounts in 2007. Each key account identified has a dedicated support team, including an account champion, technical and field application support and quality assurance personnel to ensure delivery of timely service to customers as well as open more opportunities for specific projects.

For the Display Panel business, the Group currently services most of the world's major display module makers. The Group continues to focus on approaching original design manufacturer ("ODM") and IDH directly so as to forge connection with the participants in the value chain. During the year, the Group extended its relationship with leading customers from China, Japan, Korea and Taiwan, through whom it can broaden its relationship with top-tier end product manufacturers.



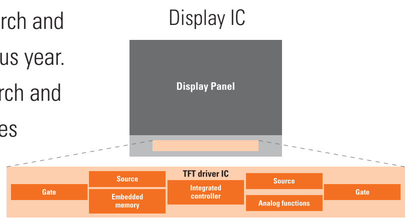
Total System Solutions

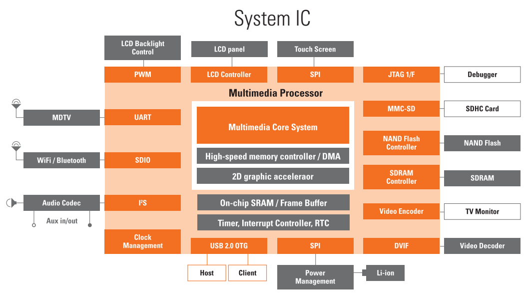
Regarding the Display System Solution business, the Group provides customers with total system solutions for specific high volume applications. Given this enlarged product offering, the Group broadened its customer base for emerging consumer product applications. Meanwhile, the Group's leading technology in system solutions reinforced its business relationship with existing customers and also attracted new key customers.

Research and Development

Research and development capability is one of the Group's core competencies. Continual investment in targeted areas showed the Group's determination to expand its business, capture new opportunities and stay ahead in the competition by developing and offering innovative products.

The Group spent roughly US$20 million on research and development in 2007, 13% more than the previous year. As at 31 December 2007, the Group had a research and development workforce of more than 250. Besides supplementing the Group's established IC design and engineering expertise, software and system design employees were recruited to accelerate the buildup of Display System Solution business.





In terms of wafer technology under development, the Group's products employ a range of fine technologies from 0.09μm (i.e. 90 nanometer) to 0.6μm, depending on cost performance measure against customers' specific requirements. Last but not least, the Group filed 2 patents and published 2 technical articles in 2007.

Human Resources

As at 31 December 2007, the Group had 433 employees, 10% more than the previous year. This headcount increase comprised mainly new technical staff hired for the Display Panel and Display System Solution businesses. The acquisition of a subsidary effective 1 December 2007 resulted in 60 additional headcounts.

As a technology company, the Group highly values its human resources. To reward good performance and retain talents, the Group offers competitive remuneration to employees and provides employees with relevant trainings, career development programs, job satisfaction and a first-rate working environment in the hope that they will enjoy working for the Group and contribute their efforts to the Group's success.

In the first half of 2007, most employees were granted cash bonuses and Company's shares in recognition of their performance in 2006. On top of that, a share option award scheme was also put in place for selected employees to drive for business performance in 2007. At the Board level, directors were awarded options for their contributions to the Group.

Prospects

As per the book to bill ratio of 0.64 as at 31 December 2007, the first half of 2008 should still be expected to stay challenging for the Group. To rise above the challenges, the Group will strive for progress in delivering technologically leading ICs and expanding its customer base. The Group will continue its efforts in product diversification and providing fast turnkey solutions to customers.

DISPLAY PANEL

Mobile Display

Personal Navigation Device

Mobile phones and MP3/MP4 players are the major markets of this business unit. Key display panel technologies include m-TFT, monochrome STN, color STN and OLED. M-TFT should be the mainstream technology for the next 3-5 years especially with a pipeline of depreciated TFT panel fabs to be converted from large panel to small-medium panel manufacturing. The Group believes increase of low cost m-TFT panel supply should lead to proliferation of portable multimedia devices such as personal navigation device, digital photo frame and mobile digital TV. Besides reinforcing business ties with leading mobile phone makers, the Group aims to position better within the m-TFT module value chain and collaborate closer with portable multimedia system designers.

Monochrome STN and color STN are matured technologies that should see limited unit shipment growth beyond mobile phones designed for developing countries. The Group intends to strive for market share gain by introducing more cost competitive products. Passive Matrix OLED ("PMOLED") and Active Matrix OLED ("AMOLED") are two families of OLED technology. PMOLED is matured with the panel industry consolidated after 2006. In 2008, the Group should strengthen its leadership in PMOLED by ramping up unit shipment to all major panel makers. AMOLED is an emerging technology that should require additional efforts to reach mass market. The Group has already aligned itself with a leading AMOLED panel maker to develop lower cost solutions.


Digital Photo Frame

Large Display

The core competency in IC design and development has enabled the Group to develop technologically competitive ICs for large displays. The Group is making an effort to build relationships with large TFT LCD panel makers in China, Japan and Taiwan on new design-ins. It is expected that this business will take longer time to generate incremental sales to the Group.

New Display


Mobile Digital TV

The Group expects bistable display IC business to emerge as an important future growth catalyst with the improvement of E-paper technology. The Group was the major supplier of the bistable display IC to the world's first E-paper mobile phone in 2006. Although the unit shipment came below expectation, the Group's leadership in E-paper applications has led to other opportunities including timepieces, digital storage media, electronic shelf labels and display signage. In 2008, the Group put high priority to ramp volume shipment of bistable IC for electronic shelf labels, as well as develop IP and engineering samples for IC cards.

For the microdisplay business, in addition to the existing VGA resolution microdisplay controller, the next-generation WVGA-resolution microdisplay controller is under development for applications in high-definition movies, stereo 3D games entertainment, and viewfinders of high-end digital cameras.

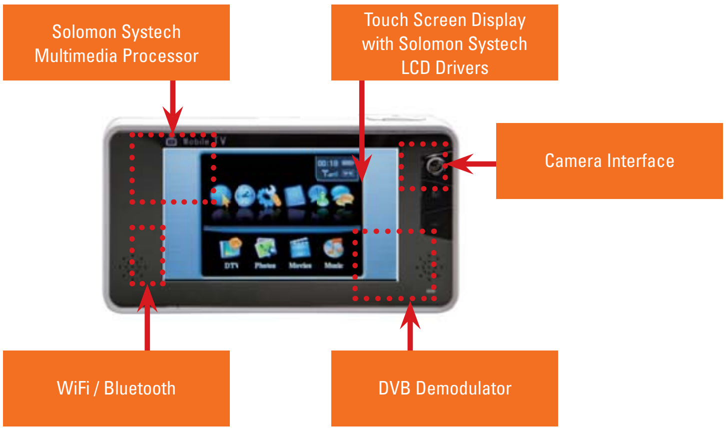
DISPLAY SYSTEM SOLUTION

The Group continues to invest in Display System Solution because it believes this business unit will gradually become an important contributor of the Group's financial performance. Display System Solution achieved noteworthy milestones in 2007: (1) achieved first pass silicon success with a multimedia processor that should formulate the foundation for future platform solutions; (2) developed the industry's first MIPI compliant bridge controller; and (3) shipped more than 1 million units of display system ICs.

The business nature of Display System Solution should promote the Group to the next level of competitiveness. Unlike Display Panel that depends primarily on IC design expertise and customer relationship, Display System Solution's business nature also requires software integration and reference design expertise with higher entry barriers.

The Group has developed partnerships with system design houses. Display System Solution intends to accelerate its product and business development by leveraging these partnerships. Moreover, its business nature also leads the Group to co-competition, incorporating chips from other suppliers to formulate a reference design or designing its MIPI bridge controller into others' reference designs.

Display System Solution identifies 5 major applications to focus its 2008 business development efforts: digital photo frame, portable media player, personal navigation device, mobile digital TV and high quality video presentation with MIPI. The business unit is expected to increase its unit shipment significantly and contribute about 10% of the Group's overall sales in 2008.



Display System Solution offers total solution including both hardware and software

SOCIAL RESPONSIBILITY

The Group is committed to being a "green" partner of its customers and the society. In 2007, Solomon Systech secured ISO14001 certification for implementing a Quality and Environmental Management System ("QEMS") that enables the Group to develop and implement management and operational policies taking into account legal requirements for protecting the environment and minimizing pollution. With its QEMS ISO14001 certified, the Group has formally extended its green mission to entail also compliant to RoHS[1] Directive and participation in the green movement of the electronic industries.

Last year was the third year of the Group's 3-year sponsorship to WWF's "Ocean's 10" project. The total sponsorship amount spread between 2005 and 2007 was HK$730,000. The purpose of the project was to raise public awareness of marine heritage of Hong Kong by focusing on the 10 marine flagship species, thereby fostering the perception of Hong Kong being a diverse biological habitat. The activities that took place during the year included a Multimedia Creativity Competition & Exhibition, a Public Voting on the favorite among the "Ocean's 10" Species and a number of marine conservation education cruises.

1. An European Union's Directive of Restriction on Hazardous Substances (2002/95/EC), which became European Law in February 2003 and formally effective 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.

The Group was again named a "Caring Company" by the Hong Kong Council of Social Service in 2007 in recognition of its active involvement in social and community related activities. In September 2007, 153 employees participated in the "Dress Special Day" of the Community Chest and raised in total a donation of HK$53,000 for charities.

In addition to supporting community and charitable activities, the Group has been active in implementing a number of "Green" office measures. To cut down on paper consumption, it encourages double-side printing, print only when necessary, print two pages on one sheet, and only Forest Stewardship Council[2] ("FSC") papers are used for printing in the office as well as for printing the Group's financial reports and other corporate literatures. It also relays energy saving tips to staff members through a daily learning program.

The Group offered more than HK$200,000 in funding to education, including 5 scholarships for universities in Hong Kong, contribution to development foundations and donation for the 3rd HKEIA school in Guangdong. As a hi-tech company, Solomon Systech also advises the industry, and the local government and universities, playing a part in nurturing growth of the sector and ultimately contributes to the well-being of the entire society.

2. The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions which promote responsible stewardship of the world's forests. http://www.fsc.org/en/

Dress Special Day

Public Voting on Ocean's 10

Scuba Diving Trip to visit Ocean's 10

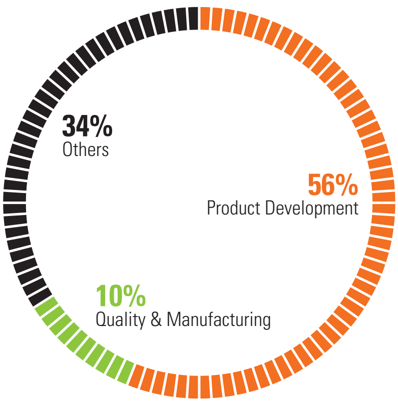
EMPLOYEES

Undeniably, the Group's most important assets are its employees. Thus, top on the operational agenda of the management is offering the right trainings to employees to help them realize their full potential and sharpen their ability to cope with changes and new challenges. In 2007, the Group spent around HK$1.1 million on training and related sponsorship. A total of 11,915 hours of training, equivalent to an average of 33.2 hours a year per person, were provided to employees. The various topics covered included language skills, products and technical knowledge, marketing and leadership skills, and environmental protection. Training was conducted with external consultants or internal experienced employees as instructors. Apart from in-house training, the Group encourages employees to take external job-related courses and will sponsor a portion of the course fee.

Leadership Training

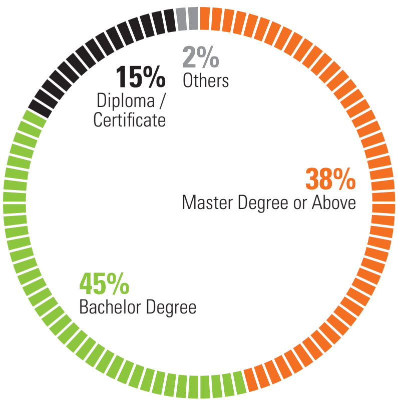
All new employees are required to take mandatory programs on topics including internal control and information protection, ISO and quality management system, as a part of job orientation. Specifically designed for new hires, these programs familiarize them with the Group's operations and its emphasis on quality. All training and development programs primarily serve one or more of three main purposes: enhancing an employee's skills, strengthening an employee's understanding of the Group's culture and internal procedures, and providing professional development to the employee.

Function



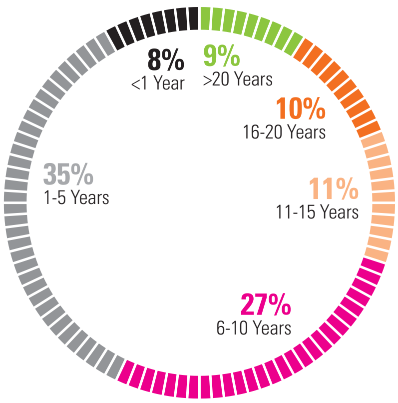
- 258 technical engineering staff
- Total 388 staff[1] worldwide as at 31 December 2007

Education



- 38% Master Degree or above
- 82% Degree or above

Experience



- Management team > 20 years of working experience
- Average 10.1 years of working experience

More than 80% of the Group's employees hold university degrees or above, and more than one-third have master degrees or higher academic standings. The Group's emphasis on research and development is also reflected in the make-up of its workforce, with 56% being engineers who specialize in product development. The entire team has, on average, 10.1 years of working experience.

1. Data in all the charts exclude manufacturing subsidiary and the newly acquired subsidiary.

Remuneration of the Group's employees includes basic salaries and bonuses. The Group believes in incentivizing, retaining and rewarding employees and attracting new talents with the right incentives, whether cash or share based, to make sure their interests are aligned with those of the Group. In addition to the two programs (Share Option Scheme and Share Award Plan) in placed, the Group also implements a cash rewarding program, namely the NPI Incentive Program, to reward development teams for success of new product introduction through monitoring time to market and revenue contribution of specific new products.

In addition to encouraging dedication to work, the Group believes building a corporate culture that creates an intimate team is also very important. The Group's Staff Recreation Club therefore organizes weekly activities for employees including games of sport such as basketball, badminton, football and table tennis, and other social events such as a bowling competition, hiking and boat trips. The Group believes such activities will enhance relationship among employees and can help to foster a sense of belonging to the "big family".

The Group also cares about work safety and the health of its staff. Occupational safety and health measures are in place to facilitate assessment of workstation risks and related occupational safety standards, and provide staff health training.

The Group values its pool of industry talents and rewards its members for excellence. Through offering employee job satisfaction, it hopes to instill in them a sense of ownership of the company and its mission.

Bowling Competition

Hiking

Boat Trip

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE CHAIRMAN

Mr. SUN, Patrick, age 49, is the Non-executive Chairman and an Independent Non-executive Director ("INED") of the Company. He is currently an Independent Non-executive Director of China Railway Group Limited (HKSE: 0390), the Chief Executive Officer and Executive Director of Value Convergence Holdings Limited (HKSE: 8101) and member of the general committee of the Chamber of Hong Kong Listed Companies Limited. He was a member of Takeovers & Mergers Panel and the Takeovers Appeal Committee, Deputy Chairman of the Listing Committee and a member of the Council of The Stock Exchange of Hong Kong Limited. He also served as Honorary Chief Executive Officer of the Chamber of Hong Kong Listed Companies Limited, and from December 1996 to March 2002 as the Senior Country Officer and Head of Investment Banking for Hong Kong of JPMorgan. He was an Executive Director of SW Kingsway Capital Holdings Limited, Group Executive Director and Head of Investment Banking for Greater China of Jardine Fleming Holdings Limited, Independent Non-executive Director of Link Management Limited (HKSE: 0823), and Independent Non-executive Director of Everbright Pramerica Fund Management Co., Ltd.

MANAGING DIRECTOR

Mr. LEUNG Kwong Wai, aged 51, is the Founder and Managing Director of the Group. He also serves as the Group CEO. Prior to 1999, Mr. Leung was the Director of Operations of Motorola Semiconductors Hong Kong Limited. 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 the Hong Kong Semiconductor Industry Council, Vice Chairman of the Hong Kong Electronics Industry Council of the Federation of Hong Kong Industries, and Director of the Board of Directors of Hong Kong Applied Science and Technology Research Institute Company Limited. Mr. Leung received the Young Industrialist Award for Hongkong in 2001, the Outstanding Polytechnic University Alumni Award in 2003, the Outstanding Achievement Award in the 10 Years' China IC Design Industry Development in 2004, and was conferred Honorary Fellowship by the Hong Kong University of Science and Technology in 2007.

EXECUTIVE DIRECTORS

Mr. LAM Shun Fu, Percy, aged 52, was appointed as a director of the Company on 23 October 2006. Mr. Lam joined the Group in 2006 and is currently the President of Solomon Systech Limited. Prior to joining the Group, he worked in Motorola (China) Electronics Limited as Vice President and General Manager of Motorola Energy System Group and Motorola Automotive Electronics Group respectively for Asia Pacific Region.

Mr. HUANG Hsing Hua, aged 49, joined the Group since 2003 and is currently the Vice President, Sales of Solomon Systech Limited. Prior to joining the Group, he was the Senior Vice President of Solomon Technology Corp.

Mr. LAI Woon Ching, aged 54, joined the Group since its inception in 1999 and is currently the Vice President, Quality and Manufacturing of Solomon Systech Limited. Prior to joining the Group, he was Senior Quality Manager of Motorola Semiconductors Hong Kong Limited.

Mr. LO Wai Ming, aged 45, joined the Group since its inception in 1999 and is currently the Vice President, Business Operations of the Solomon Systech Limited. Prior to joining the Group, he was the Business Operations Manager of Motorola Semiconductors Hong Kong Limited.

NON-EXECUTIVE DIRECTORS

Dr. LAM Pak Lee, aged 58, was the Non-executive Chairman of the Group from 2004 to 2006. He has resigned his position as Non-executive Chairman with effect from 1 January 2007 but remains as a Non-executive Director of the Company. He is also the Founder, Chairman and CEO of Quanta Computer Inc. (TSE:2382).

Mr. SHEU Wei Fu, aged 38, was appointed as Alternate Director to Dr. Lam Pak Lee, who is a Non-executive Director of the Company, with effect from 1 July 2007. He has been the Special Assistant to Dr. Lam since 1998. Mr. Sheu has not acted as a director in any other listed public company in the last 3 years.

Mr. CHANG Ching Yi, Steven, aged 46, is a Non-executive Director of the Group since 2003. Mr. Chang is also the Founder and Chairman / CEO of The CID Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SUN, Patrick
(refer to Non-executive Chairman on P.22)

Mr. CHOY Kwok Hung, Patrick, aged 65, has been an Independent Non-executive Director of the Company since 2004. Mr. Choy retired from Motorola as its Corporate Vice President. He is the Chairman and Non-executive Director of China Financial Leasing Group Limited (HKSE:2312), the Founder and Chairman of Global Strategy Group, a Trustee and Board member of Majulah Connection Limited, an Independent Non-executive Director of Evergro Properties Limited (D09.SI), a Corporate Advisor to Keppel Corporation Limited and a Senior Advisor to Motorola Inc., an Advisor to Nan Fung Group and the Chairman of Bunge China Advisory Board. Mr. Choy is a member of the Chinese People's Political Consultative Conference (CPPCC).

Professor KAO Kuen, Charles, aged 74, had been an Independent Non-executive Director of the Company since 2004 and resigned effective on 1 March 2008. Prof. Kao is an Independent Non-executive Director of Next Media Limited (HKSE: 0282) and was an Independent Non-executive Director of SUNeVision Holdings Ltd. (HKSE: 8008) until 1 January 2007. Known as "the father of fiber optics", Prof. Kao enjoys international recognition for pioneering the use of fiber optics in telecommunications. He has received numerous awards including the Draper Prize and the Japan Prize, Japan's equivalent of the Nobel Prize. He was also awarded a Marconi International Fellowship by the United Nations and received the Alexander Graham Bell Medal from the U.S. Institute of Electrical and Electronics Engineers. Prof. Kao was previously Chairman of the Energy Advisory Committee of Hong Kong and the Vice-Chancellor (President) of The Chinese University of Hong Kong.

Mr. WONG Yuet Leung, Frankie, aged 59, who had been a Non-executive Director of the Company since 2004, was re-designated as an Independent Non-executive Director with effect from 1 January 2007. He is also the Chief Executive Officer of Shui On Construction and Materials Limited (HKSE: 0983) and a Non-executive Director of CIG Yangtze Ports PLC (HKSE: 8233).

COMPANY SECRETARY

Mrs. FUNG Lui Kit Har, Keziah, aged 47, Vice President, Finance. Joined Solomon Systech Limited in 2000 as Finance Director. Mrs. Fung is a "Qualified Accountant" of the Company for the purpose of Rule 3.24 of the Stock Exchange Listing Rules and she is currently acting as the Company Secretary of the Company.

SENIOR MANAGEMENT

Mr. KUNG Tat Wing, aged 47, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as Business Operations Director.

Mr. LEONG, John Peter, aged 47, Vice President, Corporate Development. Joined Solomon Systech Limited in 2006 as Corporate Development Director.

Dr. YEH Chao Pin, aged 53, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as China Operations Director.

Ms. CHAN Sze Yin, Yvonne, aged 39, Corporate Communications Director. With Solomon Systech Limited since its inception in 1999 as Product Marketing Manager.

Mr. CHEUNG Hung Fai, Peter, aged 48, Planning & Customer Services Director. Joined Solomon Systech Limited in 2000 as Senior Planning Manager.

Mr. CHU On Ki, Andrew, aged 45, Design Engineering Director. Joined Solomon Systech Limited in 2007.

Dr. LAI Wai Yan, Stephen, aged 61, Design Engineering Director. With Solomon Systech Limited since its inception in 1999.

Ms. LO Oi Yee, Mabel, aged 43, Human Resources Director. Joined Solomon Systech Limited in 2000 as Human Resources Manager.

Mr. WANG Wah Chi, Raymond, aged 42, Business Operations Director. Joined Solomon Systech Limited in 2006.

CORPORATE GOVERNANCE REPORT

The Board of Directors ("Board") and the management of the Group are committed to achieve and maintain high standards of corporate governance, which it considers as critical in safeguarding the integrity of its business operations and maintaining investors' trust in the Company. The management also actively and constantly observes latest corporate governance developments in Hong Kong and overseas, particularly in the U.K. and U.S.A. Throughout the year, the Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices ("Code Provisions") in Appendix 14 of The Rules Governing the Listing of Securities (the "Listing Rule") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and there was no deviation from the Code Provisions. In 2007, the Group's commitment to high standards in corporate governance practices continued to earn market recognition from stakeholders such as:

- The Asset's Rising Star in Corporate Governance in Asia 2007
- IR Magazine Awards 2007, Grand Prix for Best Overall Investor Relations by a Hong Kong Company - small or mid-cap
- IR Magazine Awards 2007, Best Annual Report and Other Corporate Literature - small or mid-cap

Board of Directors

The Board currently consists of five executive directors (including the Managing Director), two non-executive directors and three independent non-executive directors (including the Chairman).

Schedule of matters reserved for the Board include:

- Strategy and management
- Group structure and capital
- Financial reporting and control
- Internal controls
- Major contracts
- Corporate communications
- Board membership and other appointments
- Remuneration
- Authority and delegation
- Corporate governance
- Company policies

Matters not specifically reserved to the Board and relate primarily to the daily operations of the Group are delegated to the management under the supervision of the respective directors and the leadership of the Managing Director.

At every annual general meeting of the Company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation, provided that every director shall retire from office at least once every three years or within such other period as the rules of the Stock Exchange may from time to time prescribe. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires. The membership of the Board represents wide background and rich industry experience.

Board of Directors (continued)

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors among whom one has to have appropriate professional qualifications, or accounting of related finance management expertise. All Independent Non-executive Directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the Group's development and freely express their opinions at the Board meetings. All Independent Non-executive Directors, except as disclosed in this annual report, do not have any business with or financial interests in the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. During the year, the Group's management also met with certain non-executive directors to seek their views on certain business or operational matters.

The following table shows directors' attendance at meetings during the 2007 financial year:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Number of meetings held	6	2	3	1	2
Members of the Board		**No. of meetings attended (Attendance rate)**			
Independent Non-executive Directors					
SUN, Patrick (Chairman)	6 (100%)	2 (100%)	3 (100%)	1 (100%)	—
CHOY Kwok Hung, Patrick	3 (50%)	2 (100%)	2 (67%)	—	2 (100%)
KAO Kuen, Charles (resigned w.e.f. 1 March 2008)	3 (50%)	—	—	—	—
WONG Yuet Leung, Frankie	6 (100%)	2 (100%)	—	—	—
Executive Directors					
LEUNG Kwong Wai (Managing Director)	6 (100%)	—	—	1 (100%)	2 (100%)
HUANG Hsing Hua	6 (100%)	—	—	—	—
LAI Woon Ching	6 (100%)	—	—	—	1 (50%)
LAM Shun Fu, Percy	6 (100%)	—	—	—	—
LO Wai Ming	6 (100%)	—	—	—	1 (50%)
Non-executive Directors					
CHANG Ching Yi, Steven	3 (50%)	—	3 (100%)	1 (100%)	—
LAM Pak Lee / SHEU Wei Fu (alternate to LAM Pak Lee w.e.f.1 July 2007)	4 (67%)	—	—	—	—

Independent Non-executive Chairman

In 2007, the Independent Non-executive Chairman of the Board, Mr. SUN, Patrick, was responsible for ensuring that all directors act in the best interest of shareholders. He was fully accountable to the shareholders and contributed 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 the Group on key strategies, ensuring the Group's effective communication with stakeholders and implementing a high level of standard in corporate governance.

Managing Director

The Managing Director, Mr. LEUNG Kwong Wai, is responsible for managing the Group and executing the strategies adopted by the Board. He functions as the Chief Executive Officer who 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 meetings, as well as the quarterly employees' communication meeting. The role of the Chairman is segregated from that of the Chief Executive Officer as stipulated in the Listing Rules.

Board of Directors (continued)

Non-executive Directors

At least once a year, non-executive directors and also independent non-executive directors will have a private discussion with the Independent 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, may access the Group's employees at anytime they think appropriate. Each of the non-executive directors (including independent non-executive directors) of the Company has entered into a service contract with the Company that will expire on 30 June 2008. The first reappointment date of each non-executive director is listed below:

Non-executive Directors	**First reappointment date**
CHANG Ching Yi, Steven	21 November 2004
LAM Pak Lee	25 February 2005
SHEU Wei Fu (alternate to Dr. LAM Pak Lee)	1 July 2007[1]
Independent Non-executive Directors	
WONG Yuet Leung, Frankie	3 February 2005
CHOY Kwok Hung, Patrick	25 February 2005
SUN, Patrick	25 February 2005
KAO Kuen, Charles[2]	15 March 2005

1 Mr. SHEU Wei Fu was first appointed as an alternate to Dr. LAM Pak Lee effective from 1 July 2007.

2 Prof. KAO Kuen, Charles has resigned as independent non-executive director effective from 1 March 2008.

Audit Committee

The Audit Committee comprises three members who are all independent non-executive directors and is chaired by Mr. WONG Yuet Leung, Frankie. Mr. Wong has many years of experience of corporate finance and investment at company board level who meets the requirement of having related financial management expertise as required under Rule 3.10(2) of the Listing Rules for the purpose of such appointment. In addition, Mr. SUN, Patrick, member of the Audit Committee, is an experienced investment banker also with appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Committee meets not less than twice a year to review and discuss the interim and annual consolidated financial statements respectively. It may hold additional meetings from time to time to discuss special projects or other issues it considers necessary. The independent auditor and internal auditor of the Group may request a meeting if they consider it 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 if required.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the independent auditor, the audit fee, and any question of resignation or dismissal
- To discuss with the independent auditor the nature and scope of the audit
- To review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To develop and implement policy on the engagement of an independent auditor to supply non-audit services
- To review the Group's interim and annual consolidated financial statements before submission to the Board
- To discuss problems and reservations arising from the interim review and final audits and any matters that the independent auditor may wish to discuss
- To review the independent auditor's management letter and the management's response
- To review the Group's statement on internal control system prior to endorsement by the Board

Audit Committee (continued)

- To review the internal audit plan, 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 or internal audit reports and the management's response
- To consider other topics, as defined by the Board

Throughout the year, the Audit Committee discharged its prescribed responsibilities, reviewed and discussed the financial results and internal control system of the Group.

Remuneration Committee

The Remuneration Committee comprises one non-executive director (also the Chairman 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 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 Committee also consults the Independent Non-executive Chairman about their proposals relating to the remuneration of other executive directors and has access to professional advice if considered necessary. The Committee consulted the head of human resources in respect of human resources policy and market as well as other company information.

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 Company. The Committee, currently chaired by Mr. CHANG Ching Yi, Steven has delegated to the Managing Director the 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 Remuneration Committee are as follows:

- To determine the framework and broad policy for the remuneration of the Chairman (if of executive), Managing Director and executive directors
- To approve remuneration package for any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate 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 its proceedings to the Board after each meeting

In 2007, the Remuneration Committee determined the remuneration policy for 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 note 9 of the consolidated financial statements section.

Nomination Committee

In 2007, the Nomination Committee comprised the Chairman (also the Chairman of the Committee), the Managing Director and one non-executive director. The Committee generally meets before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, chaired by Mr. SUN, Patrick, 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 on any change that may be required.

The main duties of the Nomination 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 its proceedings to the Board after each meeting

Investment Committee

The Investment Committee comprises three executive directors and one independent non-executive director. It shall meet at the request of any member of the Committee and its meetings will be facilitated by the Vice President, Corporate Development, and the Vice President, Finance will participate in the discussion.

The Investment Committee, currently chaired by Mr. LEUNG Kwong Wai, will evaluate and approve any equity investment of US$2 million or less with the support from the head of Corporate Development. 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 seek external professional advice it considers necessary and to arrange external advisers to attend its meetings. The Committee will also periodically report the status and performance of investments to the Board.

The main duties of the Investment 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 investment
- 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

Investment Committee (continued)

- To review and advise on additions to and dispositions of existing investments
- To review annually the 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

There were 11 investment projects entered into second round evaluation by the corporate development division of which some of them were put forward in the Investment Committee for its review and approval in 2007.

Accountability and Audit

Financial Reporting

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports. The Directors have prepared the consolidated 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.

Internal Controls

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts in protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices in 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. The Group has set up an Anti-Fraud policy since 2006. Under such policy, employees can report any concerns, including misconduct, impropriety or fraud to senior management or the Anti-Fraud Management Team. In 2007, no incident of fraud or misconduct was reported from employees or stakeholders that has material effect on the Group's financial statements and overall operations.

During 2007, the Audit Committee conducted a review of the Group's system of internal control and was satisfied that the Group had complied with the provisions of the Code.

The Board conducted a review of the Group's internal control system for the year ended 31 December 2007, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, executive management and the internal auditor; and the independent auditor's management letters, if any. The Board also reviews the Group's operating and financial performance against the financial budget on a quarterly basis while executive management closely monitors the financial performance on a monthly basis.

The Internal Audit Team follows a risk-based approach. Different audit areas are assigned risk ratings and an audit plan is formulated accordingly so that priority and appropriate audit frequency is given to areas with higher risks. The annual work plan is reviewed and endorsed by the Audit Committee. The team independently conducts regular financial and operational reviews on the Group and reports directly to the chairman of the Audit Committee regularly. Summary of major findings and control weaknesses, if any, are reviewed by the Audit Committee at least twice every year. The Internal Audit Team monitors the follow-up actions agreed upon in response to its recommendations.

Independent Auditor

The Group's independent auditor is PricewaterhouseCoopers ("PwC"). PwC is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC was also engaged to perform a review on the interim consolidated financial statements of the Group for the six months ended 30 June 2007 as well as advise the Group on tax compliance and related matters.

The fees payable by the Group to the independent auditor in respect of audit and non-audit services provided by them for the year ended 31 December 2007 are US$150,000 and US$21,000 respectively.

Others

Model Code and Code of Conduct

The Group made specific enquiry with all directors of the Company regarding their compliance with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) in relation to their securities transactions. Confirmation has been sought from all directors that they have complied all required Standards. Regarding the shares held by directors, the details are listed on pages 39 and 40 in the Report of the Directors of this Annual Report. 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 relevant employees who are 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 2007.

Since it was founded in July 1999, the Group has always held a strong belief that its future success relies on its trustworthiness, goodwill and integrity in dealing with customers, suppliers, employees, shareholders, the industry 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 Company reports to shareholders semi-annually on the Group's business and financial conditions. Ever since the Group became one of the first IC design companies listed on the Main Board of the Hong Kong Stock Exchange, its management has actively participated in investor forums and conferences in the region as well as met investors during non-deal roadshows, with the purpose of ensuring understanding of the Group's business model and industry dynamics among investors.

It is the Company's intention to hold analyst meetings and press conferences immediately after the announcements of the Group's interim and annual results. In 2007, the Company made the Group's third annual results announcement and the fourth interim results announcement since listing. The management interacted directly with investors, analysts and the media, and provided them with insightful information and answers to their queries. On 3 May 2007, the Company held its Annual General Meeting at 7/F, Tian & Di, The Landmark Mandarin Oriental, 15 Queen's Road Central, Central, Hong Kong at 4:30pm. During the said annual general meeting, the following items were discussed:

- Report of the Directors and Independent Auditor's Report for the year ended 31 December 2006
- Final dividend for the year ended 31 December 2006
- Re-election of directors
- Authorization to fix the directors' remuneration
- Appointment of Independent Auditor and authorization to Board of Directors to fix their remuneration
- Authorization to repurchase the Company's shares
- Authorization to grant a general mandate to allot, issue or deal with the Company's new shares
- Extension of the general mandate to allot, issue or deal with the Company's new shares

Others (continued)

***Corporate Transparency and Investor Relations** (continued)*

All resolutions related to the above items were passed with strong majority votes.

For the year under review, the Company conducted 72 meetings and 66 conference calls with investors and analysts. On average, the Company had 2.7 meetings or conference calls with the investment community per week. It also participated in 1 non-deal roadshow during which it talked to investors in Hong Kong, and 3 investor related functions such as corporate days, conferences or luncheons.

As part of its efforts to promote its image and reputation, the Group leveraged the networks and experience of a public relations firm. During 2007, a total of 3 media interviews were conducted in newspapers and with some well-known magazines.

The views of investors are invaluable to the Company. To help it improve communication with investors, the Company has been collecting ideas from shareholders and feedback from the investment community since listing. The Company also appreciates the opportunity to meet shareholders face-to-face.

There is no change in the Company's Articles of Association for 2007. To the best knowledge of the Company, as at 31 December 2007, 3 institutional investors held more than 20% of the Company's shares, the Board as a whole held roughly 9%, and the remaining approximately 71%, is believed to be in public hands.

The website of the Group (www.solomon-systech.com) is also updated constantly to inform 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 Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights. The Group provides effective channels for the Company's shareholders to communicate their ideas to the Group and 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 are detailed in the Company's Memorandum and Articles of Association, which is accessible for inspection 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 Corporate Communications Director who will act on the subject matter accordingly.

REPORT OF THE DIRECTORS

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 2007.

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 19 to the consolidated 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 consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 45.

During the year, the Directors have declared an interim dividend of HK$0.01 per ordinary share, totalling HK$24,878,000 (US$3,182,000) attributed to the results of 2007, which was paid on 10 October 2007.

The Directors recommend the payment of a final dividend of HK$0.02 per ordinary share, totalling HK$48,906,000 (US$6,256,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 8 May 2008, is expected to be paid on 22 May 2008 to the shareholders of the Company whose names appear on the register of members of the Company on 8 May 2008, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 2 May 2008 to 8 May 2008 , both days inclusive.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 28 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$66,000.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 26 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2007, comprising share premium reserve of US$108,423,000 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 reserve of US$13,468,000 and retained earnings of US$15,059,000 totalling US$136,950,000 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 92.

Purchase, sale or redemption of Company's listed shares

Except for the repurchase of the Company's own ordinary shares and the purchase of shares from the market by HSBC International Trustee Limited as set out in notes 26 and 27 to the consolidated financial statements, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year. Shares were repurchased during the year to improve the return on equity.

Share options

Share options have been granted to directors, senior management and employees of the Group under the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules on the Stock Exchange. 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 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 the higher of the average closing price of the shares for the five business days immediately proceeding the date of grant or the closing price of the shares on the date of grant.

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.

Two batches of share options were granted during the year:

(a) On 7 February 2007, options to subscribe for 22,600,000 new shares of the Company were granted by the Company to executive directors, senior management and employees of the Group under the Share Option Scheme. Conditional upon the level of achievement of the "2007 Key Drivers for Business Performance" applicable to each grantee, the options are exercisable (40% starting from 1 April 2009 and will lapse on 1 April 2011; 60% starting from 1 April 2010 and will lapse on 1 April 2012) at the exercise price of HK$1.43 per share. With a low level of achievement of the "2007 Key Drivers for Business Performance", 18,630,000 share options out of the total 22,600,000 granted on 7 February 2007 were cancelled on 31 December 2007 leaving a balance of 3,970,000, of which 40% i.e. 1,588,000 pending to be vested and exercisable by 1 April 2009 and 60% i.e. 2,382,000 pending to be vested and exercisable by 1 April 2010.

(b) On 28 June 2007, options to subscribe for 6,300,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme. These options are exercisable at the exercise price of HK$1.118 per share, starting 1 July 2008 and will lapse on 1 July 2010.

Share options (continued)

Details of the share options outstanding as at 31 December 2007 which were granted under the Share Option Scheme are as follows:

Name of Participants	Number of options: Held on 1 January 2007	Granted during the year	Exercised during the year	Cancelled during the year	Held on 31 December 2007	Exercise price HK$	Grant date	Exercise period: Begins	Ends
Independent Non-executive Directors									
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
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	500,000	—	—	1,800,000				
Choy Kwok Hung, Patrick	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	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	500,000	—	—	1,500,000				
Kao Kuen, Charles(i)	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	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	500,000	—	—	1,500,000				
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	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	500,000	—	—	1,500,000				
Subtotal	**4,300,000**	**2,000,000**	**—**	**—**	**6,300,000**				
Executive and Non-executive Directors									
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
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	500,000	—	—	1,800,000				
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
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	500,000	—	—	1,800,000				

(i) Prof. Kao Kuen resigned as an Independent Non-executive Director of the Company effective from 1 March 2008.

Share options (continued)

Details of the share options outstanding as at 31 December 2007 which were granted under the Share Option Scheme are as follows: (continued)

Name of Participants	Number of options: Held on 1 January 2007	Granted during the year	Exercised during the year	Cancelled during the year	Held on 31 December 2007	Exercise price HK$	Grant date	Exercise period: Begins	Ends
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
	—	1,360,000	—	(952,000)	408,000	1.430	7 February 2007	1 April 2009	31 March 2011
	—	2,040,000	—	(1,428,000)	612,000	1.430	7 February 2007	1 April 2010	31 March 2012
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	3,900,000	—	(2,380,000)	2,820,000				
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
	—	320,000	—	(320,000)	—	1.430	7 February 2007	1 April 2009	31 March 2011
	—	480,000	—	(480,000)	—	1.430	7 February 2007	1 April 2010	31 March 2012
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	800,000	1,300,000	—	(800,000)	1,300,000				
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
	—	200,000	—	(180,000)	20,000	1.430	7 February 2007	1 April 2009	31 March 2011
	—	300,000	—	(270,000)	30,000	1.430	7 February 2007	1 April 2010	31 March 2012
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	800,000	1,000,000	—	(450,000)	1,350,000				
Lam Shun Fu, Percy	—	600,000	—	(540,000)	60,000	1.430	7 February 2007	1 April 2009	31 March 2011
	—	900,000	—	(810,000)	90,000	1.430	7 February 2007	1 April 2010	31 March 2012
	—	800,000	—	—	800,000	1.118	28 June 2007	1 July 2008	30 June 2010
	—	2,300,000	—	(1,350,000)	950,000				
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
	—	320,000	—	(320,000)	—	1.430	7 February 2007	1 April 2009	31 March 2011
	—	480,000	—	(480,000)	—	1.430	7 February 2007	1 April 2010	31 March 2012
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	800,000	1,300,000	—	(800,000)	1,300,000				
Subtotal	**6,300,000**	**10,800,000**	**—**	**(5,780,000)**	**11,320,000**				

Share options (continued)

Details of the share options outstanding as at 31 December 2007 which were granted under the Share Option Scheme are as follows: (continued)

Name of Participants	Number of options: Held on 1 January 2007	Granted during the year	Exercised during the year	Cancelled during the year	Held on 31 December 2007	Exercise price HK$	Grant date	Exercise period: Begins	Ends
Senior management and employees									
Others	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
	—	6,240,000	—	(5,140,000)	1,100,000	1.430	7 February 2007	1 April 2009	31 March 2011
	—	9,360,000	—	(7,710,000)	1,650,000	1.430	7 February 2007	1 April 2010	31 March 2012
	—	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
Subtotal	**1,000,000**	**16,100,000**	**—**	**(12,850,000)**	**4,250,000**				
Total	**11,600,000**	**28,900,000**	**—**	**(18,630,000)**	**21,870,000**				

Except for 18,630,000 options that were cancelled due to low level of achievement of the "2007 Key Drivers for Business Performance", no option under the Share Option Scheme was cancelled, lapsed or exercised during the year.

Valuation of options

The Company has been using the Black-Scholes Model to value the share options granted. The key parameters used in the Model and the corresponding fair values of the options granted during the year are listed below:

Date of grant	**28 June 2007**	**7 February 2007**
Number of options granted	6,300,000	22,600,000
Total option value	US$262,000 (HK$2,040,000)	US$975,000 (HK$7,587,000)
Share price at date of grant (HK$)	1.110	1.420
Exercise price (HK$)	1.118	1.430
Expected life of options	2 years	40% at 4.25 years 60% at 5.25 years
Annualized volatility	61.14%	63.09%
Risk-free interest rate	4.305%	40% of the options with 4.165% 60% of the options with 4.197%
Dividend payout rate	5.41%	11.97%

The Black-Scholes Model is developed to estimate the fair values 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.

Share options (continued)

The net value of the options granted to the respective parties during the year is as follows:

	Value for grants on 7 February 2007 US$'000	Value of cancelled options US$'000	Net Value for grants on 7 February 2007 US$'000	Value of grants on 28 June 2007 US$'000	Total US$'000
Mr. Sun, Patrick	—	—	—	21	21
Prof. Kao Kuen, Charles (resigned w.e.f. 1 March 2008)	—	—	—	21	21
Mr. Choy Kwok Hung, Patrick	—	—	—	21	21
Mr. Wong Yuet Leung, Frankie	—	—	—	21	21
Mr. Chang Ching Yi, Steven	—	—	—	21	21
Dr. Lam Pak Lee	—	—	—	21	21
Mr. Sheu Wei Fu (alternate to Dr. Lam Pak Lee)	—	—	—	—	—
Mr. Leung Kwong Wai	147	(104)	43	21	64
Mr. Huang Hsing Hua	35	(35)	—	21	21
Mr. Lai Woon Ching	22	(20)	2	21	23
Mr. Lam Shun Fu, Percy	65	(59)	6	33	39
Mr. Lo Wai Ming	35	(35)	—	21	21
Subtotal for Directors	304	(253)	51	243	294
Senior management and employees	671	(551)	120	19	139
	975	(804)	171	262	433

Directors

The directors during the year and up to the date of this report were:

Independent Non-executive Director

Mr. Sun, Patrick (Chairman)
Mr. Choy Kwok Hung, Patrick
Prof. Kao Kuen, Charles (resigned w.e.f. 1 March 2008)
Mr. Wong Yuet Leung, Frankie (re-designated as Independent Non-executive Director on 1 January 2007)

Non-executive Director

Dr. Lam Pak Lee
Mr. Sheu Wei Fu (alternate to Dr. Lam Pak Lee and was appointed w.e.f. 1 July 2007)
Mr. Chang Ching Yi, Steven

Executive Director

Mr. Leung Kwong Wai (Managing Director)
Mr. Huang Hsing Hua
Mr. Lai Woon Ching
Mr. Lam Shun Fu, Percy
Mr. Lo Wai Ming

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

Mr. Sun, Patrick, Mr. Choy Kwok Hung, Patrick and Mr. Wong Yuet Leung, Frankie, are Independent Non-executive Directors and their service contracts were renewed in 2006 for a term expiring on 30 June 2008.

Furthermore, Mr. Wong Yuet Leung, Frankie, was re-designated as Independent Non-executive Director on 1 January 2007.

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, or its subsidiaries, 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 22 to 23.

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 2007, 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 and the Stock Exchange 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 2007				
		Directly Owned		Beneficially Owned		% of the Issued Share Capital
Name of Director		**Shares**	**Options** (vi)	**Shares**	**Total**	**of the Company**
Independent Non-executive Directors						
Sun, Patrick	Long	—	1,800,000	—	1,800,000	0.07%
	Short	—	—	—	—	—
Choy Kwok Hung, Patrick	Long	1,100,000	1,500,000	—	2,600,000	0.11%
	Short	—	—	—	—	—
Kao Kuen, Charles	Long	300,000	1,500,000	—	1,800,000	0.07%
	Short	—	—	—	—	—
Wong Yuet Leung, Frankie	Long	—	1,500,000	—	1,500,000	0.06%
	Short	—	—	—	—	—
Executive and Non-executive Directors						
Chang Ching Yi, Steven	Long	1,800,000	1,800,000	—	3,600,000	0.15%
	Short	—	—	—	—	—
Lam Pak Lee	Long	800,000	1,800,000	—	2,600,000	0.11%
	Short	—	—	—	—	—
Sheu Wei Fu *(alternate to Lam Pak Lee)*	Long	—	—	—	—	—
	Short	—	—	—	—	—
Leung Kwong Wai	Long	115,876,001	2,820,000	6,684,000(i)	125,380,001	5.13%
	Short	—	—	6,684,000(i)	6,684,000	0.27%
Huang Hsing Hua	Long	8,356,000	1,300,000	1,324,000(ii)	10,980,000	0.45%
	Short	—	—	1,324,000(ii)	1,324,000	0.05%
Lai Woon Ching	Long	27,877,600	1,350,000	1,524,000(iii)	30,751,600	1.26%
	Short	—	—	1,524,000(iii)	1,524,000	0.06%
Lam Shun Fu, Percy	Long	520,000	950,000	1,100,000(iv)	2,570,000	0.11%
	Short	—	—	1,100,000(iv)	1,100,000	0.04%
Lo Wai Ming	Long	29,664,000	1,300,000	2,324,000(v)	33,288,000	1.36%
	Short	—	—	2,324,000(v)	2,324,000	0.10%

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 6,684,000 shares held by Mr. Leung:

(a) 3,000,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by HSBC International Trustee Limited as custodian (the "Custodian") for Mr. Leung under the Pre-IPO Loyalty Plan; and

(b) 3,684,000 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. Leung under the Share Award Plan of the Company. 1,614,000 shares, 828,000 shares and 1,242,000 shares shall be vested respectively on 28 April 2008, 29 June 2008 and 29 June 2009.

(ii) Out of the 1,324,000 shares held by Mr. Huang:

(a) 800,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Huang under the Pre-IPO Loyalty Plan; and

(b) 524,000 shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Huang under the Share Award Plan of the Company. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 29 June 2008 and 29 June 2009.

(iii) Out of the 1,524,000 shares held by Mr. Lai:

(a) 1,000,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and

(b) 524,000 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. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 29 June 2008 and 29 June 2009.

(iv) 1,100,000 shares held by Mr. Lam are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lam under the Share Award Plan of the Company. 128,000 shares, 780,000 shares and 192,000 shares shall be vested respectively on 29 June 2008, 28 December 2008 and 29 June 2009.

(v) Out of the 2,324,000 shares held by Mr. Lo:

(a) 1,800,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and

(b) 524,000 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. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 29 June 2008 and 29 June 2009.

(vi) These are options granted under the Share Option Scheme with more details on pages 33 to 37.

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 corporation required to be disclosed pursuant to the SFO.

At no time during the year was the Company, its subsidiaries or its associated corporation 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 corporation 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 by the Company under section 336 of Part XV of the SFO shows that as at 31 December 2007, 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 held**	**% of the Issued Share Capital of the Company**
Morgan Stanley Investment Management Limited	Investment Manager	Long	145,116,500	5.93%
State Street Corporation	Interest of Controlled Corporation	Long (Lending Pool)	195,360,471	7.99%
TIAA-CREF Investment Management, LLC	Beneficial owner	Long	170,527,237	6.97%

Saved as disclosed above, the Company had not been notified of any interest or short positions in the shares or underlying shares of the Company as at 31 December 2007.

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	60%
– five largest suppliers combined	82%

Sales

– the largest customer	45%
– five largest customers combined	73%

None of the Directors of the Company, 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 27 March 2008.

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 2007.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

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 to all Directors, all of them were in compliance with such guidelines during the year ended 31 December 2007.

Independent Auditor

The consolidated financial statements for the year ended 31 December 2007 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kwong Wai
Managing Director
Hong Kong, 27 March 2008

INDEPENDENT AUDITOR'S 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 the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group') set out on pages 45 to 91, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for on other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2008

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Sales	5	**164,952**	254,092
Cost of sales		**(125,497)**	(194,823)
Gross profit		**39,455**	59,269
Other income		**1,008**	787
Other loss – net	6	**(227)**	—
Research and development costs		**(19,688)**	(17,373)
Selling and distribution expenses		**(3,308)**	(4,128)
Administrative expenses		**(11,479)**	(14,322)
Other operating expenses		**(28)**	(1,265)
Operating profit		**5,733**	22,968
Interest income	7	**7,963**	6,290
Finance costs	10	**(1)**	(1)
Share of results of associated companies	18	**(754)**	(662)
Profit before taxation		**12,941**	28,595
Taxation	11	**(2,752)**	(6,177)
Profit for the year	12	**10,189**	22,418
Attributable to:			
Equity holders of the Company		**10,208**	22,418
Minority interest		**(19)**	—
		10,189	22,418
Dividends	13	**9,438**	19,269
Earnings per share for profit attributable to the equity holders of the Company (expressed in US cents per share)	14		
Basic		**0.42**	0.91
Diluted		**0.41**	0.90

The notes on pages 51 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Goodwill	16	**931**	—
Property, plant and equipment	17	**8,885**	13,785
Investments in associated companies	18	**2,031**	3,185
Available-for-sale financial assets	21	**4,686**	2,535
Fixed bank deposits	22	**—**	2,000
		16,533	21,505
Current assets			
Inventories	23	**15,291**	18,253
Trade and other receivables	24	**29,365**	61,688
Financial assets at fair value through profit or loss	25	**3,234**	—
Other financial assets	22	**3,749**	1,000
Pledged bank deposits		**130**	130
Short-term fixed deposits	22	**10,000**	8,083
Cash and cash equivalents	22	**124,069**	110,422
		185,838	199,576
Total assets		**202,371**	221,081
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	**31,516**	32,251
Reserves	28(a)		
Proposed final dividend	13	**6,256**	12,869
Own shares held		**(963)**	(491)
Others		**135,082**	135,254
		171,891	179,883
Minority interest		**219**	—
		172,110	179,883

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2007

	Notes	**2007** **US$'000**	2006 US$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance leases	29	**9**	19
Deferred tax liabilities	30	**221**	827
		230	846
Current liabilities			
Trade and other payables	31	**26,554**	38,527
Tax payables		**3,343**	1,815
Derivative financial instruments	32	**124**	—
Obligations under finance leases	29	**10**	10
		30,031	40,352
Total liabilities		**30,261**	41,198
Total equity and liabilities		**202,371**	221,081
Net current assets		**155,807**	159,224
Total assets less current liabilities		**172,340**	180,729

The notes on pages 51 to 91 are an integral part of these consolidated financial statements.

LEUNG Kwong Wai
Managing Director

LAI Woon Ching
Director

BALANCE SHEET

As at 31 December 2007

	Notes	**2007 US$'000**	2006 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**221**	473
Investments in subsidiaries	19	**52,228**	50,128
		52,449	50,601
Current assets			
Trade and other receivables		**1,007**	665
Due from subsidiaries	19	**28,365**	41,873
Financial assets at fair value through profit or loss	25	**3,234**	—
Other financial assets	22	**3,749**	1,000
Short-term fixed deposits	22	**10,000**	6,083
Cash and cash equivalents	22	**72,233**	82,944
		118,588	132,565
Total assets		**171,037**	183,166
EQUITY			
Capital and reserves			
Share capital	26	**31,516**	32,251
Reserves	28(b)		
Proposed final dividend	13	**6,256**	12,869
Others		**130,694**	137,352
		168,466	182,472
LIABILITIES			
Non current liabilities			
Deferred tax liabilities	30	**39**	83
Current liabilities			
Due to subsidiaries	19	**2,159**	50
Derivative financial instruments	32	**124**	—
Provisions for other liabilities and charges		**249**	561
		2,532	611
Total liabilities		**2,571**	694
Total equity and liabilities		**171,037**	183,166
Net current assets		**116,056**	131,954
Total assets less current liabilities		**168,505**	182,555

The notes on pages 51 to 91 are an integral part of these financial statements.

LEUNG Kwong Wai
Managing Director

LAI Woon Ching
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	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	Minority interest US$'000	Total equity US$'000
At 1 January 2006	32,360	89,355	(605)	2,082	(24)	3,135	80,710	207,013	—	207,013
Exchange difference	—	—	—	—	36	—	—	36	—	36
Dividends paid, net of portion for own shares held	—	—	—	—	—	—	(54,255)	(54,255)	—	(54,255)
Shares repurchase	(109)	(1,387)	—	—	—	—	—	(1,496)	—	(1,496)
Profit for the year	—	—	—	—	—	—	22,418	22,418	—	22,418
Equity compensation	—	—	114	—	—	6,167	(114)	6,167	—	6,167
At 31 December 2006	32,251	87,968	(491)	2,082	12	9,302	48,759	179,883	—	179,883
At 1 January 2007	**32,251**	**87,968**	**(491)**	**2,082**	**12**	**9,302**	**48,759**	**179,883**	**—**	**179,883**
Exchange difference	**—**	**—**	**—**	**—**	**189**	**—**	**—**	**189**	**—**	**189**
Dividends paid, net of portion for own shares held	**—**	**—**	**—**	**—**	**—**	**—**	**(15,984)**	**(15,984)**	**—**	**(15,984)**
Shares repurchase	**(735)**	**(5,159)**	**—**	**—**	**—**	**—**	**—**	**(5,894)**	**—**	**(5,894)**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**10,208**	**10,208**	**(19)**	**10,189**
Shares purchased for Share Award Scheme (note 27(b))	**—**	**—**	**(677)**	**—**	**—**	**—**	**—**	**(677)**	**—**	**(677)**
Equity compensation	**—**	**—**	**205**	**—**	**—**	**4,166**	**(205)**	**4,166**	**—**	**4,166**
Minority interest arising on business combinations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**238**	**238**
At 31 December 2007	**31,516**	**82,809**	**(963)**	**2,082**	**201**	**13,468**	**42,778**	**171,891**	**219**	**172,110**

The notes on pages 51 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Operating activities			
Cash generated from operations	34	**36,521**	35,185
Hong Kong profits tax paid		**(1,837)**	(10,356)
Overseas tax paid		**(24)**	(7)
Interest element of finance lease rental payments		**(1)**	(1)
Net cash generated from operating activities		**34,659**	24,821
Investing activities			
Acquisition of a subsidiary, net of cash acquired	20	**1,173**	—
Decrease in fixed bank deposits		**2,000**	3,000
Purchase of property, plant and equipment		**(920)**	(8,875)
Acquisition of associated companies		**(380)**	(2,944)
Acquisition of available-for-sale financial assets		**(2,151)**	(3,902)
(Increase) / decrease in short-term fixed deposits		**(1,917)**	28,917
(Increase) / decrease in other financial assets		**(2,750)**	250
Interest received		**6,550**	5,422
Net cash generated from investing activities		**1,605**	21,868
Financing activities			
Repurchase of ordinary shares		**(5,894)**	(1,496)
Purchase of ordinary shares for Share Award Scheme		**(677)**	—
Payment of capital element of finance leases		**(10)**	(10)
Dividends paid		**(15,984)**	(55,007)
Dividends on own shares held not vested		**—**	752
Net cash used in financing activities		**(22,565)**	(55,761)
Net increase / (decrease) in cash and cash equivalents		**13,699**	(9,072)
Effect of foreign exchange rate changes		**(52)**	15
Cash and cash equivalents at 1 January		**110,422**	119,479
Cash and cash equivalents at 31 December		**124,069**	110,422
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**124,069**	110,422

The notes on pages 51 to 91 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED 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 and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs and other innovative consumer electronic products.

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 27 March 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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, financial assets and financial liabilities (including derivative instruments) 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.

(a) In 2007, the Group has applied the following new standard, amendment and interpretations ("new HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's operations and effective for the Group's financial year beginning on or after 1 January 2007:

- HKAS 1 (Amendment) — Presentation of Financial Statements - Capital Disclosures
- HKFRS 7 — Financial Instruments: Disclosures
- HK (IFRIC) – Int 8 — Scope of HKFRS 2
- HK (IFRIC) – Int 9 — Reassessment of Embedded Derivatives
- HK (IFRIC) – Int 10 — Interim Financial Reporting and Impairment

The adoption of the new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented except for certain additional disclosures in these consolidated financial statements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) The Group has not early applied the following new and revised standards or interpretations that are relevant to the Group's operations and have been issued but not yet effective:

- HKAS 1 (Revised) — Presentation of Financial Statements
- HKFRS 8 — Operating Segments
- HKAS 23 (Revised) — Borrowing Costs
- HK(IFRIC) – Int 11 — HKFRS 2: Group and Treasury Share Transactions

The Directors of the Company anticipate that the application of these standards or interpretations will not result in substantial changes to the accounting policies of the Group and will have no material impact on the results and financial position of the Group.

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 (including special purpose 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.

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 is de-consolidated from the date that control ceases.

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 (see note 2.6). 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 consolidated income statement.

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 (note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associated companies' post-acquisition profits or losses are recognized in the income statement, 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 associated companies equal or exceed its interest in the associated companies, 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 companies.

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

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses (note 2.7). The results of an associated company are accounted for by the Company on the basis of dividend received and receivable.

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 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 income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss and are recognized in profit or loss as part of the fair value gain or loss, Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale 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 income statement 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the income statement 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 income statement 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).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income or other loss in the income statement.

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 and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain and loss on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Patents and intellectual property

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

2.7 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impartment. Assets 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables include trade and other receivables, cash and cash equivalents and fixed bank deposits in the balance sheet (notes 2.11 and 2.12).

(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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

Regular purchases and sales of financial assets are recognized on trade-date i.e. the date on which the Group commits to purchase or sell the asset. The investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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 amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement as other gain (or loss) - net in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and 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 recognized in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale financial assets are recognized in the income statement as part of "Other income" when the Group's right to receive payments is established.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not publicly traded in market but with active valuation from reputable financial institution (for example, structured products linked to equity price) is determined by reference to the dealer's quote or input from reputable financial institutions.

Available-for-sale financial assets that do not have quoted market prices in any active markets and those fair values cannot be reliably measured are stated at cost less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.11.

2. Summary of significant accounting policies (continued)

2.9 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. Trading derivatives are classified as a current asset or liability.

Changes in the fair value of the derivative instruments which do not qualify for hedge accounting are recognized immediately in the income statement within other gain (or loss) - net.

2.10 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.

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default of delinquency in payments are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognized in the income statement within 'selling and distribution expense'. When a trade receivable is uncollectible, it is written off against the provision account of trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and distribution expense' in the income statement.

2.12 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and fixed deposits with original maturity within 3 months or less. The cash and cash equivalents meet the definition of loans and receivables and are measured at amortized cost using the effective interest method.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction from the proceed.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2. Summary of significant accounting policies (continued)

2.14 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

2.15 Employee benefits

(a) Pension obligations

The Group operates defined contribution plans, under which the Group pays fixed contributions into separate entities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares or 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). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity 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 income statement, 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 capitalizing the Company's retained earnings to pay up consideration in full prior to the listing of the Company in the Stock Exchange. The pool of shares brought forward at the time of listing of the Company has been allocated to grantees. During the year, the Trustee was instructed to buy 5,368,000 shares from the market using the funds held by the Trustee. Detail of outstanding shares can be referred to note 27(b) to the consolidated financial statements.

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 27(a).

2. Summary of significant accounting policies (continued)

2.15 Employee benefits (continued)

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized until the time of leave.

(d) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for profit-sharing bonuses 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.

2.16 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 probable 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

2.17 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of products, net of discount and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of products

Sales of products are recognized on the transfer of risks and rewards of ownerships, 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.

(c) Other income

Other income is recognized when the Group's right to receive payments is established.

2. Summary of significant accounting policies (continued)

2.19 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 charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment 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 other short-term and other long-term payables. The interest element of the finance lease payment is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.20 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 income statement over the period necessary to match them with the costs that they are intended to compensate.

2.21 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 the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

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 as an intangible asset are amortized from the commencement of the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually in accordance with HKAS36 - Impairment of Assets.

2.22 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 or directors as appropriate.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar and other Asian currencies such as Chinese Yuan, Japanese Yen, Singapore Dollars and New Taiwan Dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Revenue and majority of the cost of sales of the Group are US dollar based. Majority of the assets and liabilities are in US dollars. Foreign exchange risk mainly arises in the area of operating expenses.

At 31 December 2007, if US dollar had weakened/strengthened by 5% against other Asian currencies with all other variables held constant, post-tax profit for the year would have been approximately US$333,000 (2006: US$131,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Asian currencies expenditures.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity financial instruments, the Group diversifies its portfolio or invest only on high turnover blue chips with good dividend yield.

At 31 December 2007, the Group held equity financial instruments (note 25) and derivative financial instruments (note 32). If the equity price had increased/decreased by 10% with all other variables held constant, the post-tax profit for the year would increase/decrease by approximately US$161,000 as a result of gain/loss on equity securities classified as at fair value through profit or loss.

(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 and within their respective credit limits.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, deposits are only placed with reputable banks. For credit exposures to customers, Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade and other receivables. As at 31 December 2007, 61% of the gross trade receivables is related to a reputable distributor and 81% is related to the top 5 customers.

The Group has been monitoring the receivables aging closely. In view of majority of the receivables are current, none of the customers as at 31 December 2006 and 2007 has been rated independently in terms of credit rating by the Group.

3 Financial risk management (continued)

3.1 *Financial risk factors* (continued)

(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.

The Group's liquidity reserve (comprises cash and cash equivalents (note 22)) was closely monitored on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances, as the impact of discounting is not significant.

	Group		**Company**	
Due within 12 months	**2007 US$'000**	2006 US$'000	**2007 US$'000**	2006 US$'000
Trade and other payables	**26,554**	38,527	**249**	561
Derivative financial instruments	**124**	—	**124**	—

The maximum cash outflow from the derivative financial instruments is estimated to be no more than US$4,038,000.

(d) Cash flow and fair value interest rate risk

Except for the cash and cash equivalents, bank deposits and other financial assets, the Group has no significant interest-bearing assets or liabilities. Since there is no borrowing in the Group and the cash and cash equivalents and bank deposits are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

Available-for-sale financial assets do not have material interest rate risk.

3 Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or repurchase shares.

During 2007, the Group has no borrowing. The reduction in shareholders' funds is mainly due to the payment of dividend and shares repurchases.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded financial assets) is based on quoted closing market prices at the balance sheet date.

The fair value of financial instruments that are not publicly traded in market but with active valuation from reputable financial institution (for example, structured products linked to equity price) is determined by reference to the dealer's quote or input from reputable financial institutions.

Available-for-sale financial assets that do not have quoted market prices in any active markets and those fair values cannot be reliably measured are stated at cost less impairment.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

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 judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes 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 share-based compensation plans, the Group estimates the number of share options or shares that are expected to become exercisable or vested at the date of grant. At each balance sheet date before the options/shares become fully exercisable/vested, the Group will revise the total expenses where the number of share options or shares that are expected to become exercisable or vested is different from 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 from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 Critical accounting estimates and judgements (continued)

(d) *Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not publicly traded in market but with active valuation from reputable financial institution (for example, structured products linked to equity price) is determined by reference to the dealer's quote or input from reputable financial institutions.

5 Segment information - Group

(a) *Primary reporting format – business segment*

During the year, the Group is principally engaged in the design, development and sales of proprietary integrated circuits ("IC") and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs and other innovative consumer electronic products.

The Group has been operating in one single business segment, i.e. the design, development and sales of ICs and system solutions. Sales amounted to US$164,952,000 and US$254,092,000 for the years ended 31 December 2007 and 2006 respectively.

(b) *Secondary reporting format – geographical segments*

The Group mainly operates in Hong Kong SAR ("Hong Kong"). The Group mainly sells to customers located in Hong Kong, Taiwan and Southeast Asia ("SE Asia").

(i) Sales

	2007 **US$'000**	2006 US$'000
Hong Kong	**112,094**	182,004
Taiwan	**24,720**	24,820
SE Asia	**11,845**	7,874
Japan	**6,042**	21,759
Mainland China ("China")	**5,644**	10,847
Korea	**1,425**	5,832
United States of America ("U.S.A.")	**280**	609
Others	**2,902**	347
	164,952	254,092

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

	2007 US$'000	2006 US$'000
Hong Kong	**178,718**	191,613
Taiwan	**11,835**	18,434
Others	**11,818**	11,034
	202,371	221,081

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

(iii) Capital expenditures

	Property, plant and equipment		**Investments in associated companies**		**Investments in available-for-sale financial assets**	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000	**2007 US$'000**	2006 US$'000
Hong Kong	**328**	4,162	**380**	2,944	**—**	—
China	**145**	3,205	**—**	—	**—**	2,346
Taiwan	**74**	736	**—**	—	**—**	1,556
SE Asia	**370**	—	**—**	—	**—**	—
U.S.A.	**—**	—	**—**	—	**2,151**	—
Others	**3**	772	**—**	—	**—**	—
	920	8,875	**380**	2,944	**2,151**	3,902

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

6 Other loss – net - Group

	2007 US$'000	2006 US$'000
Financial assets at fair value through profit or loss (note 25):		
– fair value loss	(129)	—
– fair value gain	27	—
Other financial assets	(1)	—
Derivative financial instruments	(124)	—
	(227)	—

7 Interest income - Group

	2007 US$'000	2006 US$'000
Bank interest income	7,963	6,290

8 Expenses by nature - Group

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

	2007 US$'000	2006 US$'000
Loss on disposal of property, plant and equipment	**99**	85
Auditors' remuneration	**151**	138
Depreciation of owned property, plant and equipment	**6,225**	6,053
Depreciation of leased property, plant and equipment	**11**	17
Operating leases for land and buildings	**1,107**	794
Employee benefit expenses (excluding Directors' emoluments (note 9(a))	**17,514**	18,399
Directors' emoluments (note 9(b))	**2,479**	2,991
Net exchange gain	**187**	145
Provision for impairment loss of available-for-sale financial assets	**—**	1,367
Provision for impairment of receivables (note 24)	**20**	28
Provision for obsolete or slow moving inventories (note 23)	**966**	2,268

9 Employee benefit expense - Group

(a) Employee benefit expenses

	2007 US$'000	2006 US$'000
Wages and salaries	**12,934**	10,841
Discretionary bonuses	**676**	1,665
Equity compensation – shares and share options	**2,771**	4,469
Pension costs – defined contribution plans [i]	**585**	513
Other staff benefits	**548**	911
	17,514	18,399

(i) Forfeited contribution to certain defined contribution plans are utilized to reduce future contributions. During the year, there was US$21,000 of contribution being forfeited (2006:US$14,000).

9 Employee benefit expense - Group (continued)

(b) Directors' emoluments

The remuneration of every director of the Company including the equity compensation charged to the income statement per HKFRS 2 "Share-Based Payments" is set out below:

	For the year ended 31 December 2007									
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	—	274	17	—	11	11	—	313	747	1,060
Huang Hsing Hua	—	118	8	—	12	6	—	144	117	261
Lai Woon Ching	—	131	8	—	2	6	—	147	118	265
Lam Shun Fu, Percy	—	166	10	—	2	8	—	186	176	362
Lo Wai Ming	—	129	8	—	2	6	—	145	117	262
Chang Ching Yi, Steven	23	—	—	—	—	—	—	23	20	43
Lam Pak Lee	21	—	—	—	—	—	—	21	20	41
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—	—	—	—
Choy Kwok Hung, Patrick	25	—	—	—	—	—	—	25	20	45
Kao Kuen, Charles	20	—	—	—	—	—	—	20	20	40
Sun, Patrick	32	—	—	—	—	—	—	32	20	52
Wong Yuet Leung, Frankie	28	—	—	—	—	—	—	28	20	48
Total	149	818	51	—	29	37	—	1,084	1,395	2,479

9 Employee benefit expense - Group (continued)

(b) Directors' emoluments (continued)

	For the year ended 31 December 2006									
Name of Director	Fees	Salary	Discretionary bonuses[i]	Inducement fees	Other benefits[ii]	Employer's contribution to pension scheme	Compensation for loss of office as director	Subtotal	Equity Compensation[iii]	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Leung Kwong Wai	—	226	193	—	60	10	—	489	1,012	1,501
Huang Hsing Hua	—	117	41	—	11	6	—	175	159	334
Lai Woon Ching	—	131	41	—	2	6	—	180	159	339
Lam Shun Fu, Percy	—	83	36	—	2	4	—	125	2	127
Lo Wai Ming	—	128	41	—	2	6	—	177	159	336
Chang Ching Yi, Steven	22	—	—	—	—	—	—	22	40	62
Lam Pak Lee	25	—	—	—	—	—	—	25	40	65
Choy Kwok Hung, Patrick	27	—	—	—	—	—	—	27	29	56
Kao Kuen, Charles	22	—	—	—	—	—	—	22	29	51
Sun, Patrick	27	—	—	—	—	—	—	27	40	67
Wong Yuet Leung, Frankie	24	—	—	—	—	—	—	24	29	53
Total	147	685	352	—	77	32	—	1,293	1,698	2,991

(i) Discretionary bonuses were 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 income statement per requirement under HKFRS 2. Equity compensation granted in prior years with vesting term extended into the year has an impact to current year.

9 Employee benefit expense - Group (continued)

(c) *Equity compensation to Directors*

More details for the Equity Compensation Scheme can be referred to note 27 to the consolidated financial statements. Details of the share options and shares granted to each of the directors and their corresponding fair value are listed as below:

	2007				2006			
Name of Director	No. of Share Options Granted [1] (in thousand)	Fair value of the share option at Grant Date [3] US$'000	No. of Shares Granted [2] (in thousand)	Fair Value of the share at Grant Date [3] US$'000	No. of Share Options Granted (in thousand)	Fair Value of the Share Options at Grant Date US$'000	No. of Shares Granted (in thousand)	Fair Value of the Share at Grant Date [3] US$'000
Leung Kwong Wai	1,520	64	2,070	294	500	20	2,690	1,161
Huang Hsing Hua	500	21	320	45	500	20	340	147
Lai Woon Ching	550	23	320	45	500	20	340	147
Lam Shun Fu, Percy	950	39	320	45	—	—	1,300	204
Lo Wai Ming	500	21	320	45	500	20	340	147
Chang Ching Yi, Steven	500	21	—	—	500	19	—	—
Lam Pak Lee	500	21	—	—	500	20	—	—
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—	—
Choy Kwok Hung, Patrick	500	21	—	—	500	19	—	—
Kao Kuen, Charles	500	21	—	—	500	19	—	—
Sun, Patrick	500	21	—	—	500	19	—	—
Wong Yuet Leung, Frankie	500	21	—	—	500	19	—	—
Total	7,020	294	3,350	474	5,000	195	5,010	1,806

1. 7,000,000 share options were granted to Executive Directors on 7 February 2007, of which 5,780,000 were cancelled as a result of low level of achievement of the "2007 Key Drivers for Business Performance", leaving a balance of 1,220,000. Of the 1,220,000 share options, 488,000 (40% of 1,220,000) will be vested and exercisable by 1 April 2009 and 732,000 (60% of 1,220,000) will be vested and exercisable by 1 April 2010. On 28 June 2007, 5,800,000 share options were granted to the Directors of the Group under the Share Option Scheme, which can be exercised commencing from 1 July 2008.

2. A total of 3,350,000 shares under the Share Award Plan of the Company were granted to the Executive Directors of the Company during the year of which 1,340,000 shares (40% of the 3,350,000) will be vested on 29 June 2008 and 2,010,000 shares (60% of the 3,350,000) will be vested on 29 June 2009.

3. These represent the full fair value at grant date to be amortized in accordance to the vesting terms of the Share Option Scheme and may differ from the total charge to the income statement of the corresponding year.

9 Employee benefit expense - Group (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include five (2006: four) directors whose emoluments are reflected in the analysis above. The amount of emolument paid and payable to the remaining individual during the year ended 31 December 2006 is as follows:

	2007	2006
Number of individuals (excluding Directors of the Company)	—	1

	2007 US$'000	2006 US$'000
Basic salaries, other allowances and benefits in kind	—	130
Discretionary bonuses	—	24
Employer's contribution to pension scheme	—	6
	—	160
Equity compensation	—	196
	—	356

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
US$350,001 to US$400,000	—	1
US$300,001 to US$350,000	—	—
US$250,001 to US$300,000	—	—
	—	1

During the year, the five Executive Directors (including the Managing Director) have waived a total of US$77,000 of their discretionary bonuses for 2007 which were then distributed to other employees of the Group.

During the year, no emoluments have been paid to the Directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

10 Finance costs - Group

	2007 US$'000	2006 US$'000
Interest element of finance leases	**1**	1

11 Taxation - Group

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007 US$'000	2006 US$'000
Current taxation:		
Hong Kong profits tax	**3,118**	5,654
Overseas profits tax	**51**	52
Under provisions in prior years	**189**	218
Deferred taxation (note 30)	**(606)**	253
	2,752	6,177

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

	2007 US$'000	2006 US$'000
Profit before tax	**12,941**	28,595
Tax calculated at a taxation rate of 17.5% (2006: 17.5%)	**2,265**	5,004
Income not subject to tax	**(1,444)**	(1,518)
Expenses not deductible for taxation purposes	**1,032**	2,494
Utilisation of previously unrecognized tax losses	**(164)**	(167)
Tax losses not recognized	**852**	123
Effect of different taxation rates in other countries	**22**	23
Under provisions in prior years	**189**	218
Taxation expense	**2,752**	6,177

The Company has tax losses in Hong Kong of approximately US$656,000 (2006: US$1,002,000) that are available indefinitely for offsetting against future taxable profit.

12 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to extent of profit of US$3,706,000 (2006: US$24,122,000).

13 Dividends

		2007 US$'000	2006 US$'000
(a)	Final dividend attributed to the year:		
	2007 final dividend, proposed, of HK$0.02 (approximately 0.26 US cent) per ordinary share[i]	**6,256**	—
	2006 final dividend, paid, of HK$0.04 (approximately 0.51 US cent) per ordinary share[ii]	**—**	12,802
	Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	**—**	—
		6,256	12,802
(b)	Interim dividend declared and paid by the Company during the year:		
	2007 interim dividend, paid of HK$0.01 (approximately 0.13 US cent) per ordinary share [iii]	**3,182**	—
	2006 interim dividend, paid of HK$0.02 (approximately 0.26 US cent) per ordinary share	**—**	6,467
	Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	**—**	(94)
		3,182	6,373
	Dividend attributed to the year	**9,438**	19,269

(i) At a meeting held on 27 March 2008, the Directors proposed a final dividend of HK$0.02 (approximately 0.26 US cent) per ordinary share. The 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 2008.

(ii) On 26 March 2007, the Directors proposed a final dividend of HK$0.04 per ordinary share. The final dividend was paid on 10 May 2007.

(iii) On 6 September 2007, the Directors declared an interim dividend of HK$0.01 per ordinary share. The interim dividend was paid on 10 October 2007.

14 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of US$10,208,000 (2006: US$22,418,000).

The basic earnings per share is based on the weighted average of 2,453,274,184 (2006: 2,467,035,647) ordinary shares in issue excluding own shares held during the year.

Diluted earnings per share information is based on 2,476,967,789 (2006: 2,491,931,274) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming 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.

	2007	2006
Weighted average number of ordinary shares in issue	**2,453,274,184**	2,467,035,647
Adjustments for allocated own shares under Share Award Scheme	**23,693,605**	24,895,627
Weighted average number of ordinary shares for diluted earnings per share	**2,476,967,789**	2,491,931,274

15 Intangible assets - Group

	Patents and Intellectual property US$'000
At 31 December 2006 and 2007	
Cost	**4,500**
Accumulated amortization	**(4,500)**
Net book amount	—

16 Goodwill

	US$'000
Cost	
At 1 January 2006 and 2007	—
Transfer from the investment in an associated company (note 18)	**742**
Upon the acquisition of a subsidiary (note 20)	**189**
At 31 December 2007	**931**

The Group conducts impairment reviews of intangible assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable and tests for impairment of goodwill annually in accordance with the requirements of the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The goodwill as at 31 December 2007 composed of US$742,000 arising from acquisition of an associated company in the prior years. This associated company has become a subsidiary of the Group following the acquisition of additional interest in the associated company during the year. The remaining goodwill of US$189,000 arose from the above-mentioned acquisition of additional interest in the associated company (note 20).

The Directors have reviewed the carrying value of the goodwill. Taking into account of the Group's objectives, the business environment of the subsidiary and the cash flow forecast of the subsidiary for the next three years, the Directors concluded that there was no material impairment for the goodwill. The key assumptions underlying the cash flow forecast included cumulative growth rate for revenue of 170% per annum and a discount rate of 5%.

17 Property, plant and equipment

	Group					Company
	Leasehold improvements US$'000	Furniture, fixtures and office equipment US$'000	Machinery and laboratory equipment US$'000	Motor vehicles US$'000	Total US$'000	Furniture, fixtures and office equipment US$'000
At 1 January 2006						
Cost	1,919	9,884	10,690	153	22,646	296
Accumulated depreciation	(820)	(5,892)	(4,720)	(137)	(11,569)	—
Net book amount	1,099	3,992	5,970	16	11,077	296
Year ended 31 December 2006						
Opening net book amount	1,099	3,992	5,970	16	11,077	296
Exchange differences	9	(8)	(13)	—	(12)	—
Additions	250	4,173	4,452	—	8,875	385
Disposals	(24)	(56)	(5)	—	(85)	—
Depreciation	(547)	(2,826)	(2,681)	(16)	(6,070)	(208)
Closing net book amount	787	5,275	7,723	—	13,785	473
At 31 December 2006						
Cost	2,092	14,037	15,111	153	31,393	681
Accumulated depreciation	(1,305)	(8,762)	(7,388)	(153)	(17,608)	(208)
Net book amount	787	5,275	7,723	—	13,785	473
Year ended 31 December 2007						
Opening net book amount	**787**	**5,275**	**7,723**	—	**13,785**	**473**
Exchange differences	**3**	**(95)**	**365**	—	**273**	—
Acquisition of a subsidiary (note 20)	—	**217**	**25**	—	**242**	—
Additions	**65**	**512**	**343**	—	**920**	—
Disposals	—	**(72)**	**(27)**	—	**(99)**	**(70)**
Depreciation	**(556)**	**(2,880)**	**(2,800)**	—	**(6,236)**	**(182)**
Closing net book amount	**299**	**2,957**	**5,629**	—	**8,885**	**221**
At 31 December 2007						
Cost	**2,172**	**13,057**	**15,935**	**127**	**31,291**	**611**
Accumulated depreciation	**(1,873)**	**(10,100)**	**(10,306)**	**(127)**	**(22,406)**	**(390)**
Net book amount	**299**	**2,957**	**5,629**	—	**8,885**	**221**

Depreciation expense of US$1,323,000 (2006: US$2,376,000) has been expensed in cost of sales, US$2,681,000 (2006: US$1,304,000) in research and development costs and US$2,232,000 (2006: US$2,390,000) in administrative expenses.

The net book value of furniture, fixtures and office equipment of US$2,957,000 includes an amount of US$3,000 (2006: US$13,000) in respect of assets held under finance leases.

18 Investments in associated companies - Group

	2007 US$'000	2006 US$'000
At 1 January	**3,185**	903
Acquisition of associated companies	**380**	2,944
Share of results of associated companies	**(754)**	(662)
Transfer to goodwill (note 16)	**(742)**	—
Transfer to investment in a subsidiary (note 20)	**(38)**	—
At 31 December	**2,031**	3,185

The Group's interests in its associated companies were as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2007		For the year ended 31 December 2007		Interest held indirectly
				Assets US$'000	Liabilities US$'000	Revenue US$'000	Gain/(loss) US$'000	
EPD Technology Limited	Hong Kong	Design, development, manufacturing & distribution of E-paper display modules	100,000 ordinary shares of HK$1 each	**1,761**	**1,961**	**2**	**(175)**	40%
Kitronix Limited	Hong Kong	Design, development, manufacturing & distribution of LCD modules	9,500,000 ordinary shares of HK$1 each	**6,912**	**1,548**	**8,200**	**456**	25%

19 Investments in subsidiaries

(a) Investments in subsidiaries

	Company	
	2007	2006
	US$'000	US$'000
Investments in unlisted shares, at cost	**52,228**	50,128

(b) Amounts due from/(to) subsidiaries

	Company	
	2007	2006
	US$'000	US$'000
Amounts due from subsidiaries	**29,732**	41,873
Less: Provision for impairment loss	**(1,367)**	—
	28,365	41,873
Amounts due to subsidiaries	**(2,159)**	(50)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for the US$1,500,000 due from WE3 Technology Company Limited, which is interest bearing. The amount due from WE3 Technology Company Limited is unsecured, bears interest of 5.94% per annum and is repayable within 12 months.

The carrying amounts due from/(to) subsidiaries of the Company approximate their respective fair values.

The provision for impairment was concluded from the assessment of the cash flow position of a subsidiary, taking into consideration of the forecasted performance and development of that subsidiary by the management.

19 Investments in subsidiaries (continued)

(c) Particulars of subsidiaries

The following is a list of the principal subsidiaries at 31 December 2007:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Directly held:				
Solomon Systech Limited ("SSL")	Hong Kong, limited liability company ("LLC")	Design, development, distribution of integrated circuits and system solutions, Hong Kong	188,585,271 ordinary shares of HK$1 each	100%
Ample Pacific Limited ("Ample")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Cornway International Limited ("Cornway")	The 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")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
In Achieve Limited ("In Achieve")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
WE3 Ventures Limited ("WE3-BVI")	The British Virgin Islands, LLC	Investment holding, Hong Kong	108,930 ordinary shares of US$0.01 each	90%
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	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	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 and paid up capital	100%
Solomon Systech Taiwan Limited ("SST")	Republic of China ("Taiwan"), LLC	Market research, Taiwan	5,000,000 ordinary shares of TWD10 each	100%
WE3 Technology Company Limited ("WE3-HK")	Hong Kong, LLC	Design, development & distribution of handsets solutions, Hong Kong	23,339,000 ordinary shares of HK$1 each	81.7%
維駿通訊產品(深圳)有限公司	China, LLC	Design and development of electronic & wireless application, China	CNY100,000 registered and paid up capital	81.7%

20 Business combinations - Group

On 1 December 2007, the Group acquired additional 45% of the equity interest of WE3-HK which is engaged in the design, development & distribution of handsets solutions for a total consideration of US$236,000. Following the acquisition, the Group's interest in WE3-HK increased from 36.7% to 81.7%, and as a result, WE3-HK became a subsidiary of the Group.

The assets and liabilities as of 1 December 2007 arising from the acquisition are as follows:

	Fair value US$'000	**Acquiree's carrying amount US$'000**
Cash and cash equivalents	1,190	1,190
Property, plant and equipment (note 17)	242	242
Inventories	329	329
Trade and other receivables	232	232
Trade and other payables	(1,889)	(1,889)
Net assets		104
Minority interests (18.3%)		(18)
Interest previously held by the Group (note 18)		(38)
Fair value of net assets acquired		48
Purchase consideration settled in cash		17
Purchase consideration settled in shares - 10% of the Group's shareholding in WE3-BVI		220
Total purchase consideration		237
Goodwill (note 16)		189
Purchase consideration settled in cash		(17)
Cash and cash equivalents in a subsidiary acquired		1,190
Cash inflow from acquisition		1,173

The goodwill is attributable to the workforce of the acquired business and the synergies expected to arise after the Group's acquisition of WE3-HK.

The Group's share of the net liabilities of WE3-HK as at 31 December 2007 and the post acquisition loss of WE3-HK for the year amounted to US$58,000 and US$19,000 respectively. Assuming WE3-HK were acquired by the Group on 1 January 2007, the contribution of sales and net profit to the Group for the period from 1 January 2007 to 30 November 2007 would not be material to the Group.

There was no acquisition for the year ended 31 December 2006.

21 Available-for-sale financial assets - Group

	2007 US$'000	2006 US$'000
Unlisted shares, at cost	**6,337**	4,186
Less: Provision for impairment loss	**(1,651)**	(1,651)
	4,686	2,535

These were no disposal of available-for-sale financial assets during the year. All the available-for-sale financial assets are unlisted equity securities.

21 Available-for-sale financial assets - Group (continued)

The carrying amounts of the Group's available-for-sale financial assets are denominated in the following currencies:

	2007 US$'000	2006 US$'000
US Dollar (USD)	**4,497**	2,346
Other currencies	**189**	189
	4,686	2,535

22 Cash and cash equivalents, short-term fixed deposits, other financial assets and fixed bank deposits

	Group		**Company**	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Cash at bank and in hand	**5,959**	7,643	**121**	605
Short-term bank deposits[1]	**118,110**	102,779	**72,112**	82,339
Cash and cash equivalents	**124,069**	110,422	**72,233**	82,944
Short-term fixed deposits[2]	**10,000**	8,083	**10,000**	6,083
Other financial assets[3]	**3,749**	1,000	**3,749**	1,000
Fixed bank deposits	**—**	2,000	**—**	—
	137,818	121,505	**85,982**	90,027

1 The effective interest rate on short-term bank deposits was 4.9% per annum (2006: 5.1% per annum); these deposits have an average maturity of 22 days (2006: 36 days).

2 The effective interest rate on short-term fixed deposits was 4.6% per annum (2006: 5.0% per annum); these deposits have an average maturity of 127 days (2006: 193 days).

3 Other financial assets represent the structured bank deposits.

The carrying amounts of the Group's and the Company's cash and cash equivalents, short-term fixed deposits, other financial assets and fixed bank deposits are denominated in the following currencies:

	Group		**Company**	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
US Dollar (USD)	**127,972**	115,263	**79,355**	90,012
Hong Kong Dollar (HKD)	**7,303**	4,097	**5,500**	15
Chinese Yuan (CNY)	**1,109**	892	**—**	—
Other currencies	**1,434**	1,253	**1,127**	—
	137,818	121,505	**85,982**	90,027

23 Inventories - Group

	2007 US$'000	2006 US$'000
Finished goods	**3,625**	3,075
Raw materials and work in progress	**20,111**	22,657
	23,736	25,732
Less: Provision for obsolete or slow moving inventories	**(8,445)**	(7,479)
	15,291	18,253

The cost of inventories that is recognized as an expense and included in cost of sales amounted to US$123,695,000 (2006: US$192,867,000).

24 Trade and other receivables - Group

	2007 US$'000	2006 US$'000
Trade and bills receivables	**24,843**	57,707
Less: provision for impairment of receivables	**(395)**	(61)
Trade and bills receivables - net	**24,448**	57,646
Prepayments and other receivables	**4,917**	4,042
	29,365	61,688

The ageing analysis of trade and bills receivables is as follows:

	2007 US$'000	2006 US$'000
Current	**11,164**	21,507
Ageing:		
1 - 30 days	**6,861**	20,126
31 - 60 days	**4,863**	12,445
61 - 90 days	**1,385**	2,980
91 - 180 days	**169**	523
181 - 365 days	**6**	65
	13,284	36,139
	24,448	57,646

The Group's sales to corporate customers are mainly entered into on credit terms of 30 days. As of 31 December 2007, trade receivables of US$13,284,000 (2006: US$36,139,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since these are related to a number of independent customers for whom there is no recent history of default.

24 Trade and other receivables - Group (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2007 US$'000	2006 US$'000
US Dollar (USD)	26,946	59,907
Hong Kong Dollar (HKD)	592	861
Singapore Dollar (SGD)	1,607	695
Other currencies	220	225
	29,365	61,688

As of 31 December 2007, trade receivables of US$395,000 (2006: US$73,000) were impaired. The amount of the provision was US$395,000 as of 31 December 2007 (2006: US$61,000). The ageing of these receivables is as follows:

	2007 US$'000	2006 US$'000
Over 6 months	395	73

Movements on the provision for impairment of trade receivables are as follows:

	2007 US$'000	2006 US$'000
At 1 January	61	33
Provision for receivable impairment	20	31
Provision for receivable impairment arising on acquisition of a subsidiary	314	—
Unused amounts reversed	—	(3)
At 31 December	395	61

There is no further impaired asset within trade and other receivables.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

25 Financial assets at fair value through profit or loss

	Group and Compay			Group and Company		
	2007			2006		
	Held for trading US$'000	Designated at fair value US$'000	Total US$'000	Held for trading US$'000	Designated at fair value US$'000	Total US$'000
Unlisted						
Equity-linked deposits	—	2,695	2,695	—	—	—
Listed in Hong Kong						
Equity securities	447	—	447	—	—	—
Marketable investment fund	92	—	92	—	—	—
	539	2,695	3,234	—	—	—

Financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the consolidated cash flow statement (note 34).

Changes in fair values of financial assets at fair value through profit or loss are recorded in other loss — net in the consolidated income statement (note 6).

The fair values of listed financial instruments are based on quoted market prices at the balance sheet date. The equity-linked deposits are structured products linked to equity price which are not listed but with active valuation from reputable financial institution. The fair values of these financial instruments are determined by reference to the dealer's quote or input from reputable financial institutions.

The carrying amounts of the Group's financial assets at fair value through profit or loss are all denominated in Hong Kong Dollar (HKD).

26 Share capital

	2007		2006	
	No. of shares	**US$'000**	No. of shares	US$'000
Authorized:				
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	**2,502,654,351**	**32,251**	2,511,154,351	32,360
Shares repurchased	**(57,352,000)**	**(735)**	(8,500,000)	(109)
At 31 December	**2,445,302,351**	**31,516**	2,502,654,351	32,251

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggragate price paid**	
		HK$	**HK$**	**HK$'000**	**US$'000**
March 2007	5,000,000	1.29	1.27	6,400	824
April 2007	8,050,000	1.24	1.21	9,870	1,271
September 2007	16,488,000	0.70	0.67	11,358	1,452
October 2007	8,400,000	0.68	0.68	5,712	732
November 2007	16,608,000	0.68	0.62	10,762	1,377
December 2007	2,806,000	0.66	0.66	1,852	238
	57,352,000			45,954	5,894

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly.

27 Employee compensation scheme

(a) The Share Option Scheme

The Company adopted the Share Option Scheme at an extraordinary 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 manufacturers, 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 the opportunity to acquire proprietary interests in the Company and its Shares for the benefits of the Company with a flexible mean of either retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the Participants. The terms of the Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules on the Stock Exchange.

Two batches of share options were granted during the year:

- On 7 February, 2007, options to subscribe for 22,600,000 new shares of the Company were granted by the Company to executive directors, senior management and employees of the Group under the Share Option Scheme. Conditional upon the level of achievement of the "2007 Key Drivers for Business Performance" applicable to each grantee, the options are exercisable (40% starting from 1 April 2009 and will lapse on 1 April 2011; 60% starting from 1 April 2010 and will lapse on 1 April 2012) at the exercise price of HK$1.43 per share. With a low level of achievement of the "2007 Key Drivers for Business Performance", 18,630,000 share options out of the total 22,600,000 granted on 7 February 2007 were cancelled on 31 December 2007 leaving a balance of 3,970,000, of which 40% i.e. 1,588,000 pending to be vested and exercisable by 1 April 2009 and 60% i.e. 2,382,000 pending to be vested and exercisable by 1 April 2010.

- On 28 June 2007, options to subscribe for 6,300,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme. These options are exercisable at the exercise price of HK$1.118 per share, starting from 1 July 2008 and will lapse on 1 July 2010.

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

		Movement during the year Number of share options (in thousands)						
	Exercise price in HK$ per share	**At 1 January 2007**	**Granted**	**Exercised**	**Cancelled**	**Lapsed**	**At 31 December 2007**	Expiry Date
14 June 2005	2.695	**6,100**	**—**	**—**	**—**	**—**	**6,100**	1 July 2008
28 June 2006	1.980	**5,500**	**—**	**—**	**—**	**—**	**5,500**	1 July 2009
7 February 2007	1.430	**—**	**9,040**	**—**	**(7,452)**	**—**	**1,588**	31 March 2011
7 February 2007	1.430	**—**	**13,560**	**—**	**(11,178)**	**—**	**2,382**	31 March 2012
28 June 2007	1.118	**—**	**6,300**	**—**	**—**	**—**	**6,300**	1 July 2010
		11,600	**28,900**	**—**	**(18,630)**	**—**	**21,870**	

27 Employee compensation scheme (continued)

(a) *The Share Option Scheme* (continued)

The Company has been using the Black-Scholes Model to value the share options granted. The key parameters used in the Model and the corresponding fair values of the options granted during the year are listed below:

Date of grant	**28 June 2007**	**7 February 2007**
Number of options granted	6,300,000	22,600,000
Total option value	US$262,000	US$975,000
	(HK$2,040,000)	(HK$7,587,000)
Share price at date of grant (HK$)	1.110	1.420
Exercise price (HK$)	1.118	1.430
Expected life of options	2 years	40% at 4.25 years
		60% at 5.25 years
Annualized volatility	61.14%	63.09%
Risk-free interest rate	4.305%	40% of the options with 4.165%
		60% of the options with 4.197%
Dividend payout rate	5.41%	11.97%

(b) *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 as Trustee for the benefit of the directors and employees.

Under the terms and condition of the grant, 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. The pool of shares brought forward at the time of listing of the Company has been allocated to grantees. During the year, the Trustee was instructed to buy 5,368,000 shares from the market using the funds held by the Trustee to replenish the pool. The total amount paid to acquire shares during the year was US$677,000 (2006: Nil). At 31 December 2007, a net 22,448,000 shares were reserved for named employees leaving a balance of 5,107,520 shares for future grant to directors and employees in 2008 and beyond.

Shares held by HSBC International Trustee Limited as Trustee under the Share Award Plan

	Number of shares
At 1 January 2007	38,217,520
Share purchased from market	5,368,000
Shares vested during the year	(16,030,000)
At 31 December 2007	27,555,520

27 Employee compensation scheme (continued)

(b) *The Share Award Plan* (continued)

The following is a summary of the shares granted, vested and forfeited during the year since the set up of the Share Award Plan:

	No. of shares				
	Cumulative total	**2007**	2006	2005	2004
Granted during the year	51,270,000	**13,160,000**	17,650,000	16,790,000	3,670,000
Vesting during the year	(26,336,000)	**(16,030,000)**	(8,838,000)	(1,468,000)	—
Forfeiture of shares granted during the year	(2,486,000)	**(1,314,000)**	(1,092,000)	(80,000)	—
	22,448,000	**(4,184,000)**	7,720,000	15,242,000	3,670,000

The Group has used HKFRS 2 to account for the equity compensation expenses of the shares granted at the date of grant at fair value.

28 Reserves

(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 2006	89,355	(605)	2,082	(24)	3,135	80,710	174,653
Exchange difference	—	—	—	36	—	—	36
Dividends paid, net of portion for own shares held	—	—	—	—	—	(54,255)	(54,255)
Share repurchase	(1,387)	—	—	—	—	—	(1,387)
Profit for the year	—	—	—	—	—	22,418	22,418
Equity compensation	—	114	—	—	6,167	(114)	6,167
At 31 December 2006	87,968	(491)	2,082	12	9,302	48,759	147,632
At 1 January 2007	**87,968**	**(491)**	**2,082**	**12**	**9,302**	**48,759**	**147,632**
Exchange difference	**—**	**—**	**—**	**189**	**—**	**—**	**189**
Dividends paid, net of portion for own shares held	**—**	**—**	**—**	**—**	**—**	**(15,984)**	**(15,984)**
Share repurchase	**(5,159)**	**—**	**—**	**—**	**—**	**—**	**(5,159)**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**10,208**	**10,208**
Shares purchased for Share Award Scheme (note 27(b))	**—**	**(677)**	**—**	**—**	**—**	**—**	**(677)**
Equity compensation	**—**	**205**	**—**	**—**	**4,166**	**(205)**	**4,166**
At 31 December 2007	**82,809**	**(963)**	**2,082**	**201**	**13,468**	**42,778**	**140,375**

28 Reserves (continued)

(b) Company

	Share premium US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2006	114,969	3,135	58,222	176,326
Dividends paid	—	—	(55,007)	(55,007)
Shares repurchase	(1,387)	—	—	(1,387)
Profit for the year	—	—	24,122	24,122
Equity compensation	—	6,167	—	6,167
At 31 December 2006	113,582	9,302	27,337	150,221
At 1 January 2007	**113,582**	**9,302**	**27,337**	**150,221**
Dividends paid	**—**	**—**	**(15,984)**	**(15,984)**
Shares repurchase	**(5,159)**	**—**	**—**	**(5,159)**
Profit for the year	**—**	**—**	**3,706**	**3,706**
Equity compensation	**—**	**4,166**	**—**	**4,166**
At 31 December 2007	**108,423**	**13,468**	**15,059**	**136,950**

29 Obligations under finance leases - Group

	2007 US$'000	2006 US$'000
Wholly repayable within five years	**19**	29
Current portion	**(10)**	(10)
	9	19

At 31 December 2007, the Group's finance lease liabilities were repayable as follows:

	2007 US$'000	2006 US$'000
Within one year	**11**	11
In the second to fifth year	**10**	22
	21	33
Future finance charges on finance leases	**(2)**	(4)
Present value of finance lease liabilities	**19**	29
The present value of finance lease liabilities:		
Within one year	**10**	10
In the second to fifth year	**9**	19
	19	29

30 Deferred tax liabilities

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

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

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Beginning of the year	**827**	574	**83**	—
(Credited) / charged to consolidated income statement (note 11)	**(606)**	253	**(44)**	83
End of the year	**221**	827	**39**	83

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

	Group	Company
	Accelerated tax depreciation US$'000	**Accelerated tax depreciation US$'000**
At 1 January 2006	574	—
Charged to consolidated income statement in 2006	253	83
At 31 December 2006 and 1 January 2007	**827**	**83**
Credited to consolidated income statement in 2007	**(606)**	**(44)**
At 31 December 2007	**221**	**39**

31 Trade and other payables - Group

	2007 US$'000	2006 US$'000
Trade payables	**19,708**	28,672
Accrued expenses	**6,846**	9,855
	26,554	38,527

At 31 December 2007, the ageing analysis of trade payables is as follows:

	2007 US$'000	2006 US$'000
Current	**14,708**	26,910
1 - 30 days	**4,709**	1,532
31 - 60 days	**193**	50
61 - 90 days	**23**	7
Over 90 days	**75**	173
	19,708	28,672

31 Trade and other payables - Group (continued)

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2007 US$'000	2006 US$'000
US Dollar (USD)	**23,312**	35,859
Hong Kong Dollar (HKD)	**1,499**	1,592
Japanese Yen (JPY)	**1,007**	140
Other currencies	**736**	936
	26,554	38,527

32 Derivative financial instruments

	Group and Company	
	2007 Liabilities US$'000	2006 Liabilities US$'000
Derivative financial instruments	**124**	—

Trading derivatives are classified as current assets or liabilities. The Group established the fair value of derivative financial instruments with reference to the quotes from reputable financial institutions.

33 Banking facilities - Group

At 31 December 2007, the banking facilitates of the Group amounted to US$16,232,000 (2006: US$16,232,000).

34 Cash generated from operations - Group

(a) Reconciliation of profit before taxation to cash generated from operations

	2007 US$'000	2006 US$'000
Profit before taxation	**12,941**	28,595
Depreciation of property, plant and equipment	**6,236**	6,070
Share of results of associated companies	**754**	662
Finance costs	**1**	1
Equity compensation	**4,166**	6,167
Provision for impairment loss of available-for-sale financial assets	**—**	1,367
Loss on disposal of property, plant and equipment	**99**	85
Fair value changes in financial assets at fair value through profit or loss	**227**	—
Interest income	**(7,963)**	(6,290)
Operating profit before working capital changes	**16,461**	36,657
Decrease / (increase) in trade and other receivables	**33,967**	(1,601)
Decrease in inventories	**3,291**	17,959
Increase in financial assets at fair value through profit or loss	**(3,336)**	—
Decrease in trade and other payables	**(13,862)**	(17,830)
Cash generated from operations	**36,521**	35,185

34 Cash generated from operations - Group (continued)

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

	2007 US$'000	2006 US$'000
Net book amount	**99**	85
Loss on sale of property, plant and equipment	**(99)**	(85)
Proceeds from sale of property, plant and equipment	**—**	—

35 Commitments - Group

(a) Capital commitments

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

	2007 US$'000	2006 US$'000
Contracted but not provided for	**160**	—

(b) Operating lease commitments - where the Group is the lessee

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

	2007 US$'000	2006 US$'000
Not later than 1 year	**1,172**	1,086
Later than 1 year and not later than 5 years	**770**	1,424
Later than 5 years	**224**	131
	2,166	2,641

36 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 27 March 2008.

FIVE-YEAR FINANCIAL SUMMARY

US$ million	**2007**	2006	2005	Restated[iv] 2004	2003
Sales	**165.0**	254.1	394.1	308.2	109.3
Gross profit	**39.5**	59.3	119.6	96.6	46.0
Net profit	**10.2**	22.4	76.3	57.9	22.7
Assets and liabilities					
Total assets	**202.4**	221.1	270.3	250.1	81.6
Total liabilities	**(30.3)**	(41.2)	(63.3)	(73.4)	(31.7)
Shareholders' funds	**172.1**	179.9	207.0	176.8	49.9
Earnings per share					
US cents					
Basic[i]	**0.42**	0.91	3.12	2.63	1.09
Diluted[ii]	**0.41**	0.90	3.08	2.50	N/A
Dividends per share	**0.39**	0.77	2.44	1.88[iii]	0.85[iii]
Net asset per share[i]	**7.02**	7.29	8.47	8.02	2.41

The Company was incorporated on 21 November 2003. The financial information for 2003 was 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 2,074,852,711, 2,204,501,037, 2,445,135,773, 2,467,035,647 and 2,453,274,184 ordinary shares in issue during each of the years ended 31 December 2003, 2004, 2005, 2006 and 2007, 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 2003. For 2004, 2005, 2006 and 2007, 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 the years ended 31 December 2003 as there was no dilutive potential ordinary shares. For 2004, 2005, 2006 and 2007, the diluted earnings per share information is based on 2,320,846,751, 2,473,217,108, 2,491,931,274 and 2,476,967,789 ordinary shares respectively, which are the adjusted weighted average number of ordinary shares outstanding assuming 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 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 effective from the financial year commencing on 1 January 2005.

CORPORATE AND SHAREHOLDER INFORMATION

Financial Calendar

Financial Year End	31 December
Interim Results Announced	6 September 2007
The Interim Dividend Paid	10 October 2007
Annual Results Announced	27 March 2008
Closure of Register of Members	2 – 8 May 2008
Annual General Meeting	8 May 2008
Proposed Final Dividend Pay Date	22 May 2008

Share Listing

Listing Venue	Main Board of The Stock Exchange of Hong Kong Limited
Listing Date	8 April 2004
Stock Code	2878
Board Lot	2,000 shares
Trading Currency	HKD
Issued Shares	2,445,302,351 (as at 31 December 2007)

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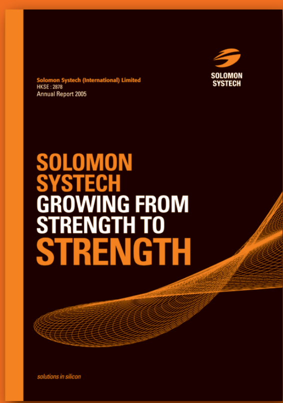
2004 Annual Report

Best of Hong Kong,
2005 International ARC Awards

2005 Annual Report



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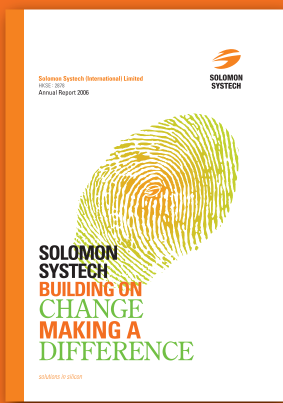

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