Solomon Systech (International) Limited
HKSE : 2878
Annual Report 2008

SOLOMON
SYSTECH

THE TRANSFORMATION

solutions in silicon

CORPORATE PROFILE

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

VISION

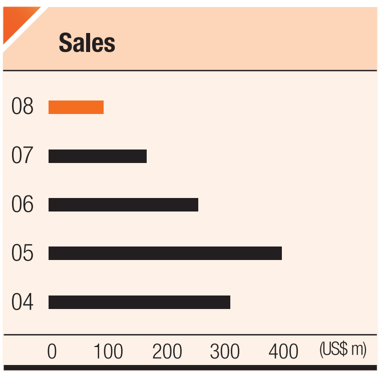
Provide the ultimate silicon solution for every display system

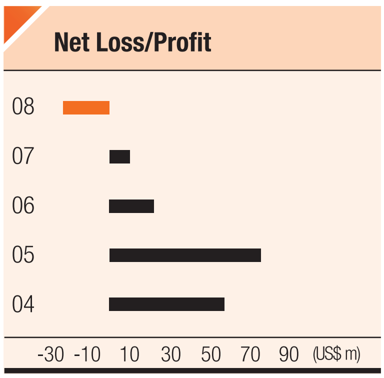
Contents

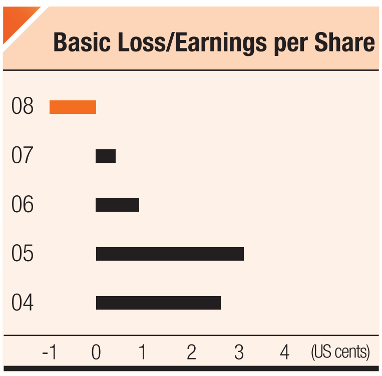
FINANCIAL HIGHLIGHTS

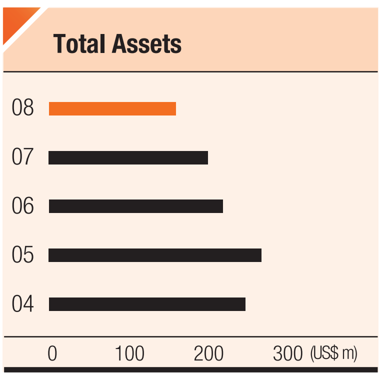
	2008 US$ million	2007 US$ million	Change
Sales	**92.8**	165.0	-44%
Gross profit	**16.9**	39.5	-57%
Net (loss)/profit	**(23.4)**	10.2	
Total assets	**162.3**	202.4	-20%
Shareholders' funds	**143.8**	172.1	-16%
US cent			
(Loss)/earnings per share	**(0.97)**	0.42	
Dividends per share	**0.39**	0.39	0%

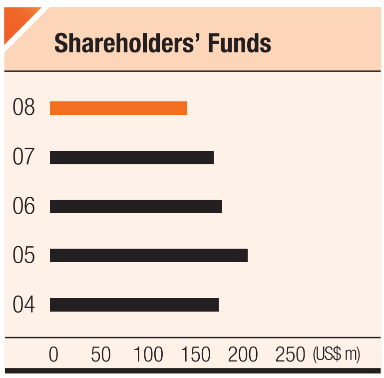
- Sales amounted to US$92.8 million
- Net loss attributable to the equity holders of the Company was US$23.4 million
- Basic loss per share was 0.97 US cent (7.5 HK cents)
- The Board proposed a final dividend per share of 3 HK cents (0.39 US cent)
- Total dividends per share of the year totaled 3 HK cents (0.39 US cent)
- Book to bill ratio for the year ended 31 December 2008 was 0.82

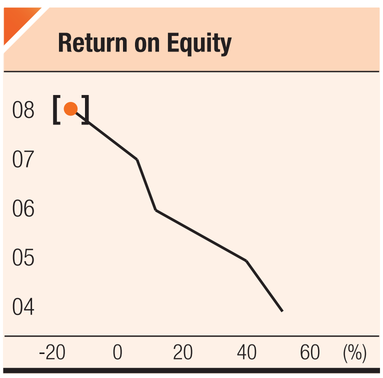












Cover Theme: "The Tangram is used as a graphic device to illustrate our messages from the cover and throughout the book. The cover is symbolic of presenting the challenge - the dividers cover major areas of focus and display the Tangram in shapes illustrating our efforts in transformation, showing our capability and commitment to strengthen our business for the future growth."

MOVING IN A

DESIGNED DIRECTION

Building on our strong foundation, and our experience and expertise in the display industry, we are transforming our business from an IC component company into a system solution provider capable of covering a bigger market, seizing more business opportunities and creating new revenue streams.

We are determined to bring added values to customers and long term benefits to stakeholders

We realigned our workforce and increased emphasis on research and development which we pursue with focus and purpose. We have a more than 280-strong army of talents now, representing approximately 60% of our total workforce. They are dedicated in IC design and development, application software design, system applications and wireless technology, working from our technology centers in Hong Kong, Singapore, Shenzhen and Taiwan.

We value our extraordinary talents
– the force driving ever forward

PUSHING AHEAD

WITH FOCUS

OUR CORE VALUES

Our corporate core values pivoted on our **5 'I's**:

- **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 technologies in the global market
- **Integrity**
  Build us a reserve of trust and goodwill

PREVAIL

Solomon Systech has been RoHS compliant for years and will continue to participate and promote the green movement in the industry and in the community at larger. Our new Green Power business, which provides lighting design systems in LED area, is evidence of our dedication to protecting the environment.

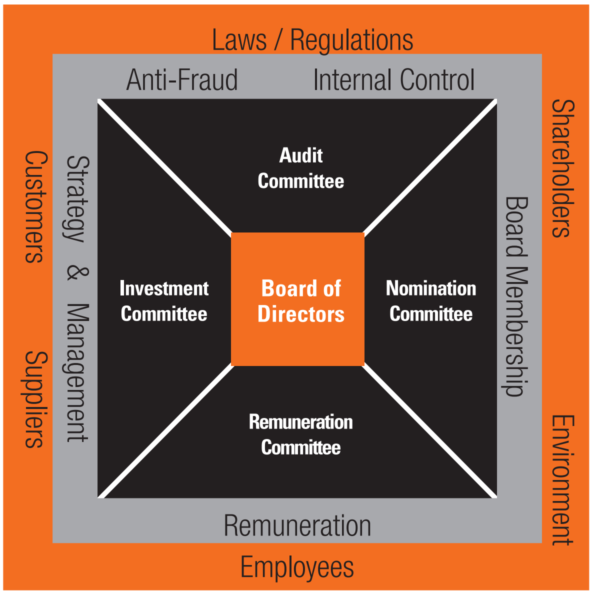
Creating a sustainable business in a sustainable environment

SOLUTIONS IN

GREEN

CHAIRMAN'S STATEMENT

We have broaden our business through partnership, strategic investment and business diversification in tackling market challenges.



2008 was a difficult year for people around the world. The financial crisis which started in the United States swept across the world sending economies and industries into recession, and there were natural disasters hitting different countries and wars and the threat of terrorism also continued. Nobody was spared in the turmoil including Solomon Systech. However, the Group, which has worked hard at transforming its business these few years, is determined to overcome adversities in the market. We have continued to improve, seize opportunities amid changes and broaden our business through partnership, strategic investment and business diversification in tackling market challenges.

As Chairman of the Board, I continued to lead fellow members in reviewing the Company's strategies and directions, and enhancing external relations and corporate governance, with the aim of balancing and safeguarding the interests of all stakeholders including the Company, shareholders, customers, business partners, employees and the community.

Business Diversification And Strategic Investment

As I mentioned in the Chairman's Statement of the 2007 Annual Report, Solomon Systech has been transforming and taking on a new position in the supply chain to support the consumer electronics industry. In this continuing transformation, we have broadened our capabilities and are moving on to deliver total system solutions. We have become stronger technologically and extended our product offerings from display ICs to also system ICs, or from supporting peripherals to supporting core components of many applications. We have broadened our business scope to delivering total system solutions covering hardware, software and intellectual properties ("IP"). We have turned our IC business into a solution-based business that can create new values for customers. In 2008, we continued to grow and accelerate development of the Display

SUN, Patrick
Chairman

TRANSFORMING WITH FOCUS

System Solutions business with Independent Design Houses ("IDHs"). Furthermore, we ventured into green energy business – the Green Power business, and invested in a Light-Emitting Devices ("LED") company and a lighting engineering company to pave way for another system solution business. These moves represented the advancement we made in business diversification.

The ultimate goals of the transformation are to provide time-to-market solutions, widen our business scope, expand our customer base, create new revenue streams and bring long term benefits to stakeholders.

Corporate Governance

I, as Chairman of the Board, and other non-executive directors are responsible for monitoring the performance and implementation of business strategies of the Group and ensuring effective corporate governance practices are diligently implemented, while the Managing Director of the Group and other senior executives are responsible for day-to-day business operation.

As at 31 December 2008, the Board comprised 10 directors, of whom 5 are executive directors, 2 are non-executive directors and 3 are independent non-executive directors. On 1 February 2009, Mr. Lam Shun Fu, Percy ("Mr. Lam") ceased to be President of Solomon Systech Limited, the major operating and wholly owned subsidiary of the Company. Mr. Lam was re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 February 2009. On 9 March 2009, Mr. Cheung Wai Kuen, Kenny, Senior Vice President of Display System Solutions operation of Solomon Systech Limited was appointed as an Executive Director of 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 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.


1

Environmental Achievement

Solomon Systech Limited earned the ISO14001 certification in 2007 and has upheld its quality and environmental management system since then and through three audits without a single incident of non-conformance ("NC"). With the support of the environmental management system, Solomon Systech has been able to develop and implement management and operational policies that abide by legal requirements for protecting the environment and minimizing pollution. The success of the Group in protecting the environment also takes full commitment of its staff at all levels and from different functions in heeding the need to balance the social and economic well being of the community. The Group is also proud of its zero NC since 2003 in complying with ISO9001:2000 and subsequently ISO14001 requirements, 12 audits in all.

As a good corporate citizen, Solomon Systech has been active in honoring its social responsibilities towards the community. We became a Pearl Member of WWF Hong Kong in 2008 in recognition of our effort to minimize printing material and donate the money saved from a paper saving campaign to WWF for their environmental conservation programs. More details of the Group's corporate social responsibility activities can be found in the "Social Responsibility" section.

Shareholder Value

The Group's net loss in 2008 was US$23.4 million. The net loss was primarily attributable to: (1) lower Group sales resulting from worse than expected market demand; (2) impairment of strategic investment in technology startups; and (3) incurrence of unrealized loss in the Group's financial asset investment.

We shipped some 115 million units of products in 2008. Major portion of product shipment was IC products and there were a small portion shipment of solution sales including royalty and system design service fees.

The Board recommended the payment of a final dividend of 3 HK cents per share out of the retained earnings.

At the end of 2008, we implemented a series of cost reduction measures to reduce our cost structure by approximately 20% of our operating expenses. The Group will review its development plans and cash position from time to time to ensure it has an optimum capital structure for maintaining a good balance between the interest of shareholders and the Group's business needs.

1. Laboratory
2. End products
3. IC design

Prospects

Looking to 2009, with consumer confidence yet to return, sales of electronic products and correspondingly semiconductors will continue to face pressure. Some market researchers and industry analysts predicted an over 5% decline in the global chip sales and also a drop in unit demand for mobile phones and personal computers ("PCs") in the coming year. They believed global chip sales will rebound and grow by 5% year-on-year in 2010. We are also of the view that, in the long run, global chip sales especially in relation to display applications will grow along with the electronics industry which still has tremendous potential to be realized.

With the scope of display applications growing, the display IC and system market will remain as our main development focus. We will continue to invest in R&D to strengthen our technological capabilities. At the same time, we will continue to be vigilant in monitoring changes in the global market and work hard at strengthening customer relations.

Regarding our new businesses, they boast obvious long term growth potential. However, given the tough market conditions which are expected to linger for a while, they may take longer to generate significant returns for the Group. Expecting 2009 to 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. We have confidence in our ability to weather the testing times ahead and achieve ultimate success.

SUN, Patrick
Chairman
Hong Kong, 25 March 2009

MANAGING DIRECTOR'S REVIEW

1. MagusCore^{TM} multimedia system solution seminar

The Group faced very challenging market situation in 2008, especially in the last quarter when the global financial crisis hit and demand plunged along the entire industry chain. The phenomenon impacted directly the Group's performance for the year. However, that did not sway our determination to broaden our capabilities from producing IC component products to cover also system solutions, thus building a stronger base to grow. We persevere to realize our transformation for a better future.

Our Transformation

1. **Business Transformation - from IC component to application system solution:** Our business has always been involving semiconductors, i.e. IC component, with expertise in display applications area and the IC component is classified as the hardware part of any electronic products. In 2008, we launched the MagusCore^{TM} multimedia system solution that marked our business transformation. This system solution includes a dual-core multimedia processor IC (the hardware), specific application software and functional firmware. The system is designed to provide complete solutions entailing IC component, application software and customized user interface.

   Besides, the Group began a new green energy business. It involved investment into a LED supplier and a system design house and in doing so aligned with critical business partners in the value chain to facilitate the delivery of completed system solutions. This new green energy business, namely Green Power, will provide total lighting system solutions including LED driver ICs, power supply modules, LED modules and lighting system design.

   Both system solutions aim to provide customers fast time-to-market total solutions.

2. **Market Application Transformation – from mobile phone to consumer electronics and industrial applications:** We continued to expand our display IC product portfolio for different kinds of display technologies (m-TFT, OLED, LED, E-paper). Alongside the migration to providing system solutions, we have also diversified our market applications from supplying IC component for mobile phones, MP3 and MP4 players to delivering solutions for many other applications such as mobile digital TV ("MDTV"), PMP, personal navigation devices ("PND", for global positioning system "GPS"), display devices with touch panels, electronics shelf labels ("ESL"), LED lighting (indoor and outdoor) and LED display etc. This development will open more business opportunities for the Group and allow the Group to spread out risks among different markets and technology segments.

3. **Revenue Transformation – from single to multiple revenue streams:** The major source of revenue has always been solely the IC component sales. Along with the business transformation, some other revenue streams such as modules sales, Printed Circuit Board Assembly ("PCBA") sales, royalty, software and design services fees started to contribute in 2008.

LEUNG Kwong Wai, Humphrey
Managing Director

DESIGNING SOLUTIONS

4. **Expertise Transformation – from IC know-how to software and product system expertise:** To support our new focus, we have changed our engineer and designer regime. In 2008, of all our technical engineering staff, 15% were software engineers versus 6% in 2007. In addition, the acquisition of the IDH at the end of 2007 and strategic investment in system design houses have also helped boosted our system solutions expertise during the year under review. The new engineering workforce has helped speed up our advancement in providing system solutions and allowed us to align our capabilities with the interest of customers, stay close to end-market requirements and share common development resources.

5. **Effectiveness Transformation – continuous improvement:** Internally, we restructure our organization for better effectiveness and work culture through proper cost control, organization realignment and improvement of procedures and processes. We built corporate culture through trainings, open communications and direct dialogue with the CEO. We encouraged execution and follow-through, and provided appropriate measurement mechanisms to guide reaching of goals. In Q4 2008, we realigned the organization and brought operating expenses down by 20%.

The Business Units

To provide a better view of the overall business reform, details of each business unit of Solomon Systech Limited are set out below:

Business Unit	Key Product	Major Market Applications	Related Companies
Display Panel Electronics Businesses			
Mobile Display	• LCD Driver IC • Touch Panel IC	• Mobile phone • Personal navigation device • UMPC/Mobile Internet Device	• Solomon Systech Limited
New Display	• E-paper Driver IC • System IC	• Electronic shelf label • E-card • Portable storage device • Decorative display application	• Solomon Systech Limited
OLED Display	• OLED Driver IC	• MP3/MP4 player • Mobile phone • Industrial appliance • Health care product	• Solomon Systech Limited
Display System Solution Businesses			
Display System Solution	• MIPI IC • Graphic Controller • Application Processor • Software Solution	• Mobile digital TV • Portable media player • Mobile phone • Study machine • Personal navigation device	• Solomon Systech Limited • WE3 Technology Company Limited ("WE3") • Independent design houses
Green Power	• LED Driver IC • LED Emitter • Power Supply Module • LED Lighting Controller • Lighting System	• LED lighting (indoor & outdoor) • LED display	• Solomon Systech Limited • LED technology company • LED lighting engineering company

2008 Awards

The Group earned four industry awards in 2008. The plaudits, garnered from authoritative organizations, recognized the Group for its achievements in technology and innovation. They have affirmed the Group's continuous strive for excellence.

Our system solutions won the most praise in 2008. MagusCore™ - the newly launched multimedia solution from Solomon Systech, won prestigious awards from both China and HKG. MagusCore™ was presented as one of the most potential products at the 2008 China Chip Award (中國芯) and took home the 2008 Hong Kong Awards for Industries – Technological Achievement Award. The awards recognized the sound engineering platform and system integration of the solution, as well as the potential of the solution to in the growing MDTV market in China.

The "Low Power Dual SIM/Dual Operation GSM/GPRS Mobile Technology" from WE3, a subsidiary of the Group, was also honored with the 2008 Hong Kong Awards for Industries – Technological Achievement Award for its excellent RF technology application, outstanding concept, unique product features and good business model.

Another pioneering IC family of Solomon Systech, the MIPI[1] master bridge chip and the MIPI TFT driver controller, also enjoyed industry endorsement evidenced by its receipt of the 2008 EDN China Innovation Award in the consumer electronics category.

1. MIPI – Mobile Industry Processor Interface

1. VIPs Visit

Invest Into The Future

The Group places heavy emphasis on research and development ("R&D") as we believe R&D is the key to success for a technology company like us. The R&D expenses in 2008 was US$19.3 million (2007: US$19.7 million), close to 2007. Resources were directed on to building the Group's capabilities for supporting the system solution businesses.

To support the transformation, the Group realigned the workforce and expanded the System Solution business units to over 140 staff – strong to cover system design, IC design, product engineering, software and hardware development, and application solutions. To maximize cost-effectiveness of resources and fully realize local expertise, specialized teams with different technical know-how are serving at our technology centers in Hong Kong, Singapore, Shenzhen and Taiwan respectively.

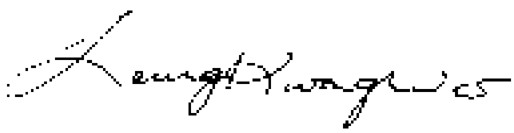
In addition to expanding its pool of talents and expertise, the Group took up stake holding in an IDH partner during the year, invested into Advanced Photoelectronic Technology Limited (formerly known as Advanced Packaging Technology Limited) ("APT"), a LED specialist with proprietary LED technology and an LED lighting engineering company. The Group is prepared to make more strategic investment that can allow it to speed up development and launch of more system solutions to the market.

The transformation 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 the sources and forms of our revenue stream.

Looking 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 and supervisory training programs were organized for our senior and junior managers in the last few years. CEO Sharing sessions and emails, and mass communication meetings are held from time to time to facilitate and encourage two-way communication. 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, 2009 will be another demanding year for the Group. Our three major focuses in 2009 are: (1) shape up ourselves with an effective organization for countering the difficult economic conditions; (2) continue to diversify and sharpen ourselves into a system solution supplier, and (3) prepare for growth riding on the diversified revenue streams from different businesses and different market places. As our system solution businesses grow, fresh growth momentum will be generated for the Group in the coming year and beyond, though the size of the contribution from the different businesses in 2009 will depend on the rate at which the market would recover. All in all, we understand and are prepared and determined to manage risks effectively and thus take Solomon Systech into a new era.



LEUNG Kwong Wai, Humphrey

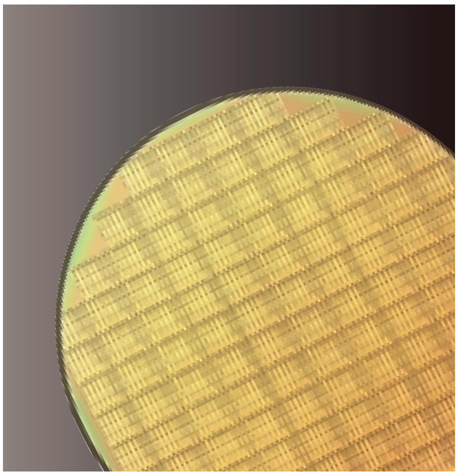
Managing Director

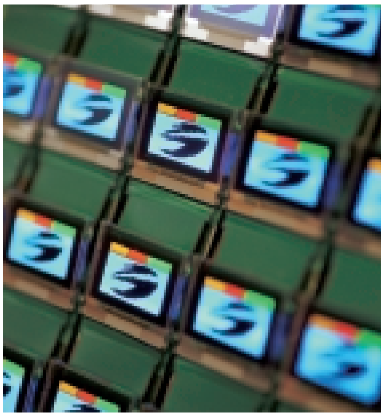
Hong Kong, 25 March 2009

MAJOR ACHIEVEMENTS IN THE LAST 10 YEARS

Solomon Systech will celebrate its tenth anniversary in 2009. Since the Group established in 1999, Solomon Systech has been delivering display ICs to the world market. The Group has many successful stories, outstanding achievements and unforgettable events:

- A major provider of LCD Driver ICs, covering all mobile and consumer applications
- Shipment of over 250 million units of LCD Driver ICs that support one of the best-selling cellular phones – the Motorola RAZR V3 – in the world
- A dominant market player holding over 40% share of the world OLED Driver IC market
- The first high volume supplier to commercialize e-paper display technology shipping more than 25 million units
- The top public fabless IC company in China for 4 years from 2004 to 2007
- From start-up of 33 personnel grew to over 400 employees worldwide, of which 60% are R&D workforce located in 4 technology centers
- 13 patents granted
- Transforming from an IC component company to a system solution provider
- Total 36 corporate awards, 16 technology awards and 26 supplier awards
- A "green" partner of its customer and the society – ISO14001 certified and the title sponsor to WWF's "Ocean's 10" project

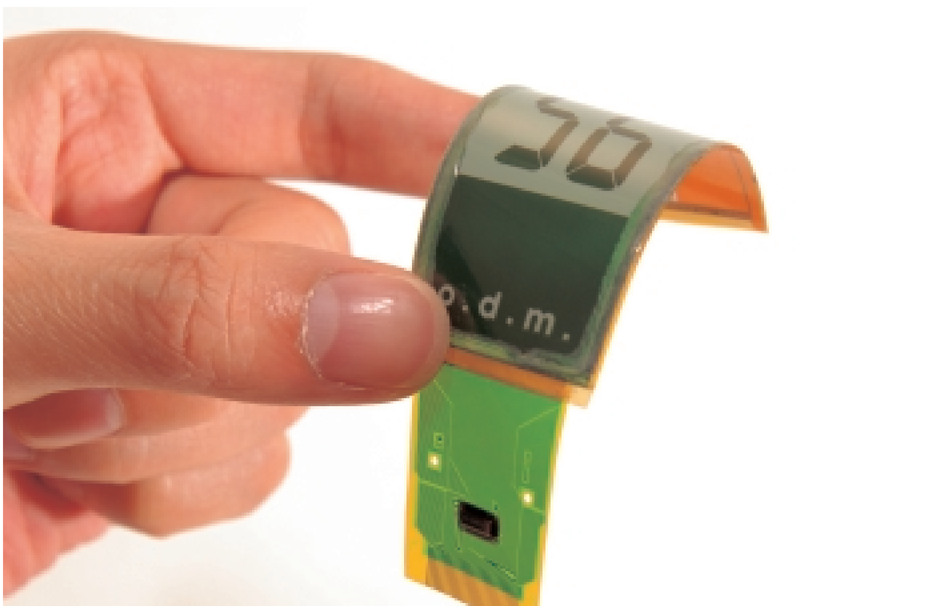




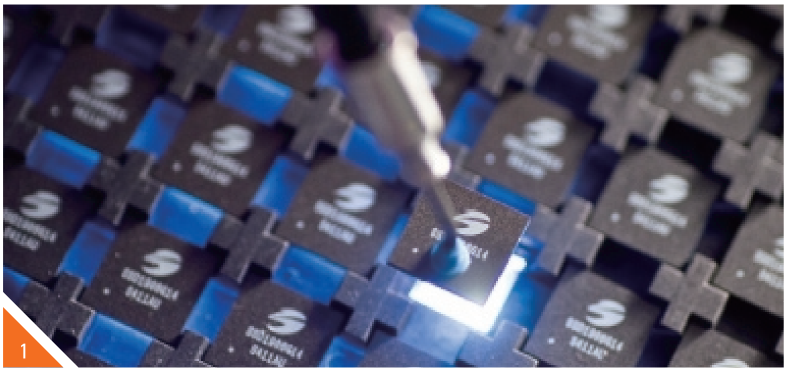

SSD1933
MagusCore™

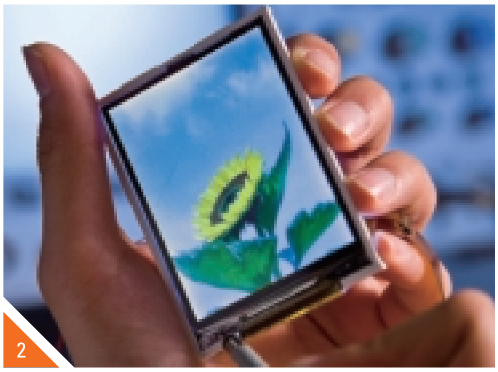

SOLOMON Systech Limited


HONG KONG
BUSINESS AWARDS



FINANCIAL REVIEW





Overview

For the year ended 31 December 2008, the book to bill ratio stood at 0.82 (2007: 0.64). The US financial crisis which erupted during the year caused a slump in consumption sentiment and in turn created a challenging market environment for the Group. A drop in demand for driver ICs was experienced by the Group. 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$93 million (2007: US$165 million). The decline was mainly due to (1) average selling price erosion; (2) weaker than expected demand for consumer electronics against deteriorating macroeconomic conditions and (3) slower than expected development of the Group's new businesses. The Group had a 34% decline year-on-year in shipment quantity and a 15% year-on-year drop in the blended average selling prices of its products. Gross profit at US$16.9 million was 57% lower year-on-year as a result of the lower unit shipment and average selling price. Gross profit margin for the year was 18.2% (2007: 23.9%). The lower gross profit margin was the result of inventory provision of US$4.7 million due to rapid market and technology change thus taking away 5.1 percentage points from of the gross profit margin, despite that efforts were made by the Group to lower manufacturing cost in the bid to defend the gross profit margin.

Total operating expenses of the Group in 2008 were 3.4% higher than that of 2007 as a result of the full consolidation of WE3. The Group continued to be more selective on R&D spending, therefore, total R&D expenses was close to 2007. Affected by (1) a lower gross profit; (2) the provision for impairment loss of available-for-sale financial assets ("AFS") of US$2.2 million; (3) the provision for impairment loss of investment in associated companies of US$1.6 million; (4) the provision for impairment loss of goodwill of US$0.9 million related to a subsidiary of the Group; and (5) the unrealized loss on financial assets at fair value through profit or loss ("FVTPL") of US$5.1 million, the Group recorded net loss attributable to the equity holders of the Company for the year of US$23.4 million (2007: US$10.2 million net profit).

Liquidity and Financial Resources

Net cash generated from operations during the year was US$2.8 million (2007: US$38.0 million). Total cash and bank deposits and equivalents (including other financial assets) of the Group amounted to US$111 million at year-end, compared to US$138 million as at 31 December 2007. The change in cash position was mainly a result of (1) dividends paid of US$6.3 million; (2) purchase of property, plant and equipment of US$4.9 million; (3) corporate strategic investments of US$5.6 million; and (4) net increase in holding of FVTPL by US$17.7 million for yield enhancement purpose under treasury.

1. IC components
2. LCD module
3. Test center

Regarding use of its cash reserves, the Group will continue to invest primarily in product development, securing production capacity, strategic corporate venture investments as well as spending on general corporate purposes. As at 31 December 2008, the Group had no significant borrowings and there had been no significant changes on the Group's assets other than those reflected in the consolidated balance sheet. The Group's cash balance was mainly deposited in banks.

All of the Group's trade receivables and most of its trade payables are quoted in US dollars. The Group closely monitors foreign exchange rates and constantly seeks to obtain favorable exchange rates for conversion of US dollars into other currencies for paying local operating expenses. During the year, the Group did not use any derivative instruments to hedge against foreign currency exposure as the Directors considered that the exposure to be insignificant.

The Board of the Company recommended the payment of a final dividend of 3 HK cents per share out of the retained earnings to shareholders whose names appear on the Register of Members of the Company on 13 May 2009. The full year dividend per share will then be 3 HK cents translating into a yield of 8.7% based on the average daily closing price of HK$0.344 for 2008.

Capital Expenditure and Contingent Liabilities

In 2008, the Group spent a total of US$10.5 million in capital expenditure, of which US$4.9 million was for property, plant and equipment purchases and US$5.6 million was for strategic corporate venture investment. Property, plant and equipment purchases made during the year were primarily in relation to the office in Taiwan and software tool for IC design.

The Group explored opportunities to purchase office space for own use upon the expiry of the tenancy in Taiwan. Appropriate office space was identified in Hsinchu, Taiwan at a total consideration of NTD55 million (approximately US$1.7 million). The new office has been in use since late December 2008.

A mortgage loan of US$0.9 million with the Taiwan Business Bank was set up in connection with the newly purchase office in Hsinchu, Taiwan. The drawdown date of the mortgage loan was on 14 January 2009 and the mortgage interest rate was 2.09% per annum.

In late November 2008, a proposal to invest in a PRC limited liabilities company ("BJ-LED") by injecting CNY4.7 million (approximately US$0.7 million) to transfer the BJ-LED to a Sino-foreign joint venture limited liabilities company ("BJ-LED-JV") for a 47% ownership was approved by the Investment Committee. Subject to PRC government approval, the cash outlay is expected to be within 1H of 2009.

As at 31 December 2008, the Group had no other material capital commitments or contingent liabilities.

BUSINESS PERFORMANCE AND OUTLOOK

Product Shipment

The Group shipped a total 115 million units of display IC, declined by 34% year-on-year (2007: 173 million units). The shipment of monochrome STN and color STN ("CSTN") display ICs decreased as the mobile phone market continued to shift its demand to mobile TFT ("m-TFT") display ICs. m-TFT display ICs shipment recorded a 23% growth to 36.6 million units, reflecting the rate at which the m-TFT product family has been over-taking the monochrome STN and CSTN in sales. OLED display ICs shipment stayed in the range of 25 to 29 million units. The OLED display market has more or less stabilized with the OLED display technology finding its way into various new applications. The shipment of new display ICs fluctuated as the volume shipment changed from mobile phone application to other new emerging applications like electronic shelf label ("ESL"), e-card and portable storage device. The Group also shipped an initial volume of system ICs, Printed Circuit Board Assembly ("PCBA") and LED drivers per the system solution businesses in 2008.

Shipment breakdown by product type is as follows:

Units Shipped (million)	2008	2007	Change
Monochrome STN	**20.6**	32.2	-36.0%
CSTN	**23.9**	63.7	-62.5%
m-TFT	**36.6**	29.8	+22.8%
OLED	**24.6**	29.1	-15.5%
New Display	**7.8**	16.8	-53.6%
System IC	**0.8**	1.2	-33.3%
Miscellaneous	**0.4**	0.6	-33.3%
Total	**114.7**	173.4	-33.9%

Note: Miscellaneous includes PDA drivers, large display drivers, LED drivers and PCBA.

Business Relationship

To enhance business development and customer relations, the Group strategically focused resources on developing several key customer accounts in 2008. 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 explore more opportunities for new projects. The focused-arrangement led to the landing of several major projects in new market applications such as audio video ("AV") products, personal navigation device ("PND"), mobile digital TV ("MDTV") and ESL. The Group will continue to support these strategic accounts targeting to open more business opportunities.

The business units of the Group are grouped into two categories: the Display Panel Electronics businesses and the Display System Solution businesses.

For the Display Panel Electronics businesses, the Group currently serves most of the major display module makers in the world. The Group continues to focus on approaching both display module makers and end-product manufacturers directly to ensure it delivers the most appropriate product solutions and value-added services to them. During the year, the Group strengthened relationship with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea and Taiwan.

Regarding the Display System Solution businesses, the Group provides customers with total system solutions that support specific emerging applications such as MDTV, PND, portable media player ("PMP"), LED lighting (indoor and outdoor) and LED display. In alignment with independent design houses ("IDHs") and lighting system design houses, the Group offers timely and total system solutions to original design manufacturers ("ODMs"). With an

End product applications:

1. MIPI chipset in smartphone
2. Low power dual SIM system technology in mobile phone
3. MagusCore™ in MDTV

enlarged solution offering, the Group was able to broaden its customer base for emerging consumer product applications during the year. The leading technology in system solutions of the Group has allowed it to reinforce business relationship with existing customers and attract new key customers.

Research and Development

Research and development capability is a core competence of the Group. Continual investment in targeted areas testifies to the Group's determination to develop and offer innovative products, expand business, capture new opportunities and stay ahead in the competition. To support business growth and stay competitive in the market, the Group has been relentless in enhancing the features of existing products and developing new products including touch panel IP, dynamic backlight control, new generation Mobile Industry Processor Interface ("MIPI") ICs, as well as supporting total system solutions for MDTV comprising hardware, software and firmware; dual SIM/dual operation GSM/GPRS mobile technology for mobile phones; and LED driver ICs, power supply modules and system design for LED lighting.

In 2008, the Group was granted two patents in the US, two patents in Taiwan and two others in China. It also filed four new patents in the US and presented three technical papers to Synopsys Users Group in China and Singapore.

The Group spent roughly US$19.3 million on research and development in 2008, more or less the same as previous year notwithstanding the full consolidation of WE3 in 2008. As at 31 December 2008, the Group had a research and development workforce of over 280, representing approximately 60% of its entire staff. The personnel mix had been realigned to include more system application and software engineers to match the requirement of the total system solution businesses. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. It also has specialist teams in Hong Kong, Shenzhen, Singapore and Taiwan including different expertise in mix-signal high-voltage IC design, VLSI (Very-large-scale-integration) design, application software design, system applications and wireless technology.

Human Resources

As at 31 December 2008, the Group had a workforce of 458, of which approximately 52% were based in Hong Kong and the rest were located in China, Japan, Singapore, Taiwan and the USA. In all, there was a 7% decrease in headcount against 2007 as a result of realignment of the workforce and appropriate cost control.

As a technology company relying on intellectual excellence, the Group highly values its human resources. To reward and retain talents, the Group offers competitive remuneration to employees and constantly provides employees with training, career development programs, job satisfaction and a first-rate working environment to make sure they enjoy working with the Group and contributing their efforts to the Group's success.

In the first half of 2008, employees who delivered exceptional performances in 2007 were granted cash bonuses. On 24 July 2008, executive directors, selected senior management and employees were granted shares, subject to vesting, in recognition of their performance and as incentive for them to continue to serve the Company. And, for the same purposes, at the Board level, directors were awarded share options.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Prospects

With the book to bill ratio at 0.82 as at 31 December 2008, the first half of 2009 is expected to stay challenging for the Group. Heeding the situation, the Group has been pushing for progress in delivering new technologically leading ICs, new system solutions for emerging applications and expanding its customer base. The Group will continue to diversify its product portfolio and provide fast turnkey solutions to customers.

DISPLAY PANEL ELECTRONICS BUSINESSES

Mobile Display

The Mobile Display business unit had been mainly supporting display ICs for mobile phones for years. Key technologies were migrated from monochrome STN to CSTN and m-TFT display ICs, along with the changes in mobile phone market from black and white display, to color display for showing images, then to color display that supported video streaming, and then to larger size color display with touch panel. Applications of mobile display had also expanded from mobile phones to a variety of consumer electronics.

Aligning with the market changes, the Mobile Display business unit continues to develop new generation display IC products with competitive features and supporting more display resolution formats. Features such as touch panel IP, dynamic backlight control and MIPI interface that integrated within the display ICs are examples of new competitive edges for the Mobile Display products to compete in the market. Meanwhile, market covered by this business unit has increased from mobile phones to MP3/MP4 players, PND, AV applications and other portable equipment, etc where new family of m-TFT driver IC in landscape display resolution format are developed specifically to address those new applications.

In 2009, the Group expects that m-TFT display ICs will continue to make up a major portion of the IC unit shipment of mobile display business as the product family continues to develop and support competitive features for diversified applications.

OLED Display

Passive Matrix OLED ("PMOLED") and Active Matrix OLED ("AMOLED") are two families of OLED technology. The Group continues to be the leader in the PMOLED display ICs market and develop AMOLED display ICs with leading panel makers.

The market for OLED display ICs may be affected by the uncertain consumer confidence, but in general, it will remain stable and steady in 2009, taking into account that the increasing maturity of the OLED display technology for mass production and the OLED display continues to expand to new applications: from mobile phones and consumer electronics like MP3 players and Bluetooth headsets, to industrial applications, office equipment as well as health care products.

New Display

Being a leader in the industry with its high-volume production of new display ICs, the Group maintains a positive view on the emerging new display IC business as more applications realize the advantages of the new display technology. The Group began shipping production quantities to electronic shelf label applications in 2008 and the design-in work continues in 2009 for other e-paper projects involving e-signage and portable storage devices. As the e-paper technology improves, new market such as e-cards and mobile decorative display, etc will surface.

All-in-all, the Group believes the demand for new display will surge and it will bring in new revenue streams through tapping into emerging market and new applications; thus it will keep researching and expanding the business to make sure it stays ahead in the competition.

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End product applications:

1. *TFT driver IC in personal navigation device*
2. *OLED driver IC in MP3 players*
3. *E-paper IC in electronic shelf label*
4. *MagusCore™ in MDTV*
5. *LED lighting solution for streetlight*

DISPLAY SYSTEM SOLUTION BUSINESSES

Display System Solution

The Group continues to invest in Display System Solution because it believes this business unit is a key part of the Group's success in transforming its business from IC component sales to delivering total system solutions. This business unit will bring in diverse sources of revenue stream and gradually become an important contributor to the Group's financial performance. The Display System Solution business unit delivers total system solutions that can (1) increase display image quality and functions; (2) support high-speed mobile interfaces; (3) generate high-performance multimedia solutions, and (4) integrate advanced wireless technology.

Products in production like image processors and graphic controllers are supporting consumer applications such as MP4 players, PND, digital photo frames and other portable consumer products. Given the continual design-wins for new display controller products, the Group expects volume shipments continue for the segment in 2009.

With an early leadership in MIPI, the business unit won several design-in projects from top-tier players in the high-speed mobile interface markets. Mass production of the MIPI chipset commenced in 2008 and one of the end products employing the chipset was launched to the market at the end of the year. More design-win projects are expected to be ready for mass production in 2009.

The high-performance MagusCore™ multimedia system solution was launched in the third quarter of 2008, and the end products using MagusCore™ for CMMB, the MDTV standard adopted in China, were subsequently introduced in the China market in November 2008. The Group believes the MagusCore™ system solution stands well in capturing the market and will help to accelerate development of the MDTV industry in China.

As a subsidiary of the Group, WE3 focuses on design, development and integration of advanced wireless technology and devices. It specializes in designing new mobile multimedia applications for end products including GSM/GPRS for mobile phones, GPS for PND and mobile multimedia broadcasting technology for MDTV. With the capability of WE3, the Group expects it to facilitate to the delivery of total system solutions based on the current MDTV platform and expansion of system solutions into other high-volume applications like PND, WiFi and 3.5G mobile internet device.

Green Power

In alignment with the business transformation and diversification, the Group continues to seek for new business opportunities in emerging market. It sees promises in the growing solid state lighting and signage industry for extending its display business with a special focus on the energy-saving or "green" products. To immediately tap opportunities in the thriving industry and provide customers with total system solutions, the Group set up the Green Power business unit in 2008, which aligns its core IC design capability with display specialist and system integrator in the value chain to supply immediate LED lighting solution to the market.

The business alignment involved: (1) acquisition of 21.6% equity ownership of Advanced Packaging Technology Limited ("APT") in 2008, the name of which was changed to Advanced Photoelectronic Technology Limited effective from 17 February 2009; (2) Investment Committee approved in November 2008 a proposal to inject CNY4.7 million (approximately US$0.7 million) into a PRC limited liabilities company ("BJ-LED") by transferring the BJ-LED to a Sino-foreign joint venture limited liabilities company ("BJ-LED-JV") for a 47% ownership subject to PRC government approval, and (3) development of a new LED driver IC family by Solomon Systech Limited.

Armed with the proprietary technology for high-brightness LED from APT, lighting system integration expertise of BJ-LED-JV and the complementary LED driver ICs of Solomon Systech, the collaboration has enabled the Group to capture business in the green power market right away and will be able to bring in new sources of revenue beyond 2009.

SOCIAL RESPONSIBILITY

The Group is committed to being a "green" partner of its customers and the society. Since Solomon Systech was certified ISO14001 in 2007 for implementing a Quality and Environmental Management System ("QEMS"), it has passed all 3 quality audits without a single non-conformance ("NC"). The QEMS has enabled the Group to develop and implement management and operational policies that meet legal requirements for protecting the environment and minimizing pollution. The Group had also extended its green mission to entail compliant with RoHS[1] Directive and participation in the green movement of the electronic industries.

In 2008, the Group was presented a Pearl Membership from WWF Hong Kong for its active effort to cut down on printing of copies of its results reports by sending electronic copies of the reports to institutional investors and analysts. The money saved was donated to WWF for its environmental conservation programs.

The Group was again named a "Caring Company" by the Hong Kong Council of Social Service in 2008 in recognition of its active involvement in social and community related activities. The Group

1. *Walk for Millions 2008*

and its staff were quick to raise a total of HK$750,000 which was donated to help victims of the Sichuan earthquakes and Myanmar cyclone through the Red Cross. The Group also donated computers and other equipment to the Caritas Computer Workshop. In February 2008, 57 employees and their family members participated in the Walk for Millions 2008 – New Territories Walk and in September 2008, 150 employees participated in the "Dress Special Day" of the Community Chest. The Group and its staff donated in all over HK$1 million to charities at different events in 2008.

In addition to supporting community and charitable activities, the Group has been active in implementing "Green Office" measures. To cut down on paper consumption, it has implemented paperless documentation system and uses only Forest Stewardship Council[2] ("FSC") papers for printing in the office and printing the Group's financial reports and other corporate literatures. To enhance staff awareness and knowledge about environmental protection, the Group invited a consultant from WWF to give a seminar on "Climate Change and Carbon Footprint" in August 2008.

The Group is sponsoring five scholarships for university students in Hong Kong and has also funded different academic forums in the total amount of HK$120,000. 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 contributing to the well-being of the entire society.

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.

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/

EMPLOYEES


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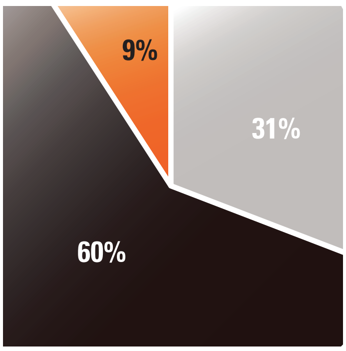
The Group's most important assets are its employees. Thus, offering the right training to employees to help them realize their full potential and ability to cope with changes and challenges tops the operational agenda of the management. In 2008, the Group spent around HK$380,000 on training and related sponsorship. A total of 12,267 hours of training, equivalent to an average of 26.5 hours a year per person, were provided to employees. The various topics covered included language skills, product 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.

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 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 employees.

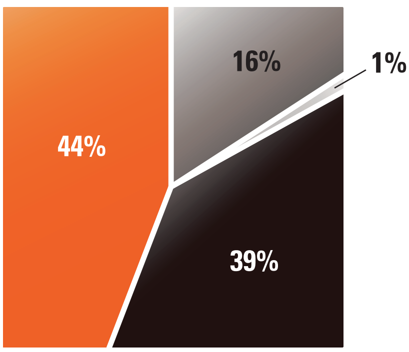
Function



- Product Development
- Quality & Manufacturinig
- Other

- 284 technical engineering staff
- Total 411 staff[1] worldwide as at 31 December 2008

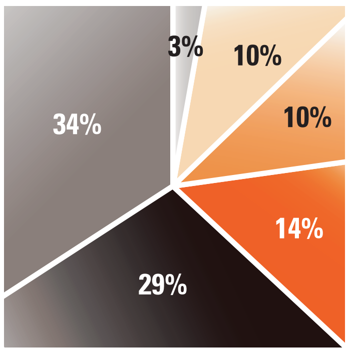
Education



- Master Degree or above
- Bachelor Degree
- Diploma / Certificate
- Other

- 39% Master Degree or above
- 83% Degree or above

Experience



- > 20 years
- 16-20 years
- 11-15 years
- 6-10 years
- 1-5 years
- < 1 years

- Management team > 20 years of working experience
- Average 9.5 years of working experience

1. Data in all the charts exclude manufacturing subsidiary.

Employees recreation activities:

1. Bowling competition
2. Football match
3. Basketball competition

More than 80% of the Group's employees hold graduate degrees or above, and more than one-third have master's degrees or higher academic qualifications. The Group's emphasis on research and development is also reflected in the make-up of its workforce, with 60% being engineers who specialize in product development. The entire team has, on average, 9.5 years of working experience.

Remuneration of employees includes basic salaries and bonuses. The Group believes in motivating, retaining and rewarding employees and attracting new talents with the right incentives, 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 place, the Group also implements a cash reward program, namely the NPI Incentive Program, to reward development teams for success in introducing new products to the market that excel in time to market and revenue contribution.

Apart from implementing measures and schemes to encourage dedication to work, the Group believes building a corporate culture that creates an intimate team is also very important. The Staff Recreation Club of the Group has thus been active in organizing activities for employees including games of sport such as basketball, badminton and tennis, and events such as bowling competition, basketball competition and football match. The Group believes such activities can enhance relationship among employees and 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 staff members are provided health training.

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE CHAIRMAN

Mr. SUN, Patrick, age 50, 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: 0821) and a Vice-Chairman 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 52, 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, Director of the Board of Directors of Hong Kong Applied Science and Technology Research Institute Company Limited and Director of the Board of Directors of Nano and Advanced Materials Institute 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. CHEUNG Wai Kuen, Kenny, aged 43, appointed as Senior Vice President, Business Operations of Solomon Systech Limited in 2008. Mr. Cheung is also the CEO of WE3 Technology Company Limited, a subsidiary of the Group. Prior to joining the Group, he was the General Manager of Wireless Mobile System Group for Asia Pacific Region in Motorola Semiconductors Hong Kong Limited.

Mr. HUANG Hsing Hua, aged 50, 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 55, 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 46, 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 59, 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), and Director of Quanta Storage Inc. (TSE:6188).

Mr. SHEU Wei Fu, aged 39, 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 47, is a Non-executive Director of the Group since 2003. Mr. Chang is also the Founder and Chairman / CEO of The CID Group, Director of Taiflex Scientific Co., Ltd (TSE: 8039) and Director of Kinsus Interconnect Technology Corp. (TSE: 3189).

Mr. LAM Shun Fu, Percy, aged 53, was appointed as a director of the Company on 23 October 2006. Mr. Lam joined the Group in 2006 and was the President of Solomon Systech Limited until 21 January 2009. Mr. Lam was re-designated from an Executive Director to a Non-executive Director of the Company on 1 February 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SUN, Patrick

(refer to Non-executive Chairman on P.30)

Mr. CHOY Kwok Hung, Patrick, aged 66, 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 Executive Director (re-designated from Non-executive Director on 18 December 2008) 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) and Road King Infrastructure Limited (HKSE: 1098) as well as the Chairman of Bunge China Advisory Board. Mr. Choy is a member of the Chinese People's Political Consultative Conference (CPPCC), National Committee.

Mr. WONG Yuet Leung, Frankie, aged 60, 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), a Non-executive Director of CIG Yangtze Ports PLC (HKSE: 8233) and Non-executive Directors of China Central Properties Limited (CCPL) and Walcom Group Limited (WALG), which both CCPL and WALG are being listed on the AIM Board of London Stock Exchange. Mr. Wong was also a Non-executive Director of Cosmedia Group Holdings Limited, a company which had been listed on the AIM Board of London Stock Exchange since 2006 but delisted in December 2008.

COMPANY SECRETARY

Mrs. FUNG Lui Kit Har, **Keziah**, aged 48, Vice President, Finance. Joined Solomon Systech Limited in 2000 as Finance Director. Mrs. Fung is currently acting as the Company Secretary of the Company. She has been a "Qualified Accountant" of the Company for the purpose of Rule 3.24 of the Stock Exchange Listing Rules since the Company was listed in 2004 until the recent repeal of the Rule 3.24.

SENIOR MANAGEMENT

Mr. KUNG Tat Wing, aged 48, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as Business Operations Director.

Mr. LEONG, John Peter, aged 48, Vice President, Corporate Development. Joined Solomon Systech Limited in 2006 as Corporate Development Director.

Dr. YEH Chao Pin, aged 54, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as China Operations Director.

Ms. CHAN Sze Yin, Yvonne, aged 40, Corporate Communications Director. With Solomon Systech Limited since its inception in 1999 as Product Marketing Manager.

Mr. CHEUNG Hung Fai, Peter, aged 49, Planning & Customer Services Director. Joined Solomon Systech Limited in 2000 as Senior Planning Manager.

Dr. LAI Wai Yan, Stephen, aged 62, Design Engineering Director. With Solomon Systech Limited since its inception in 1999.

Ms. LO Oi Yee, Mabel, aged 44, Human Resources Director. Joined Solomon Systech Limited in 2000 as Human Resources Manager.

Mr. NG Chung Yee, aged 38, Design Engineering Director. With Solomon Systech Limited since its inception in 1999 as Product Manager.

Mr. WANG Wah Chi, Raymond, aged 43, Business Operations Director. Rejoined 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.

Board of Directors

The Board currently consists of five executive directors (including the Managing Director), three 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. It was noted that Mr. Lam Shun Fu, Percy, will cease to be a Non-executive Director of the Company immediately before the 2009 Annual General Meeting. In accordance with Article 112 of the Company's Articles of Association, Dr. Lam Pak Lee, Mr. Lai Woon Ching and Mr. Lo Wai Ming, will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The membership of the Board represents wide background and rich industry experience.

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 2008 financial year:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Number of meetings held	6	2	1	1	4
Members of the Board	**Number of meetings attended (Attendance rate)**				
Independent Non-executive Directors					
Sun, Patrick (Chairman)	6 (100%)	2 (100%)	1 (100%)	1 (100%)	—
Choy Kwok Hung, Patrick	5 (83%)	1 (50%)	1 (100%)	—	4 (100%)
Kao Kuen, Charles (resigned w.e.f. 1 March 2008)	1 (N/A)	—	—	—	—
Wong Yuet Leung, Frankie	6 (100%)	2 (100%)	—	—	—
Executive Directors					
Leung Kwong Wai (Managing Director)	6 (100%)	—	—	1 (100%)	4 (100%)
Huang Hsing Hua	6 (100%)	—	—	—	—
Lai Woon Ching	6 (100%)	—	—	—	4 (100%)
Lam Shun Fu, Percy (re-designated to a Non-executive Director w.e.f. 1 February 2009)	6 (100%)	—	—	—	—
Lo Wai Ming	5 (83%)	—	—	—	4 (100%)
Non-executive Directors					
Chang Ching Yi, Steven	2 (33%)	—	1 (100%)	1 (100%)	—
Lam Pak Lee/Sheu Wai Fu (alternate to Lam Pak Lee)	6 (100%)	—	—	—	—

Independent Non-executive Chairman

In 2008, 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 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 and financial reviews and also 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.

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. The service contracts of Mr. Chang Ching Yi, Dr. Lam Pak Lee, Mr. Wong Yuet Leung, Frankie, Mr. Choy Kwok Hung, Patrick and Mr. Sun, Patrick have been renewed for a specific term from 1 July 2008 up to 30 June 2010, subject to re-election according to the procedures set out in the Company's Articles of Association. Non-executive Directors and Independent Non-executive Directors are encouraged to take educational courses at the expenses of the Group on duties of the Board and corporate governance. The first reappointment date of each non-executive director is listed below:

Non-executive Directors	**First re-appointment date**
Chang Ching Yi, Steven	21 November 2004
Lam Pak Lee	25 February 2005
Sheu Wei Fu (alternate to Lam Pak Lee)	1 July 2007[1]
Lam Shun Fu, Percy	1 February 2009[2]
Independent Non-executive Directors	
Wong Yuet Leung, Frankie	3 February 2005
Choy Kwok Hung, Patrick	25 February 2005
Sun, Patrick	25 February 2005

1. Mr. Sheu Wei Fu was appointed as an alternate to Dr. Lam Pak Lee effective from 1 July 2007.
2. Mr. Lam Shun Fu, Percy was re-designated from an Executive Director to a Non-executive Director effective from 1 February 2009 and the terms of Mr. Lam will end by 31 May 2009 or the date immediately before the AGM date, whichever the earlier.

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 Board has approved the revised Terms of Reference of the Audit Committee on 27 February 2009 following the removal of the requirement for a qualified accountant. The Audit Committee will conduct, on behalf of the Board, annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programmes and budget.

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
- 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
- Upon the removal of the requirement for a qualified accountant under the Listing Rules, to conduct (on behalf of the Board) annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programmes and budget
- 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 2008, 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 2008, 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
- 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 2008.

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 2008, 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 2008, 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 2008, 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 2008 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 2008 are US$160,000 and US$24,000 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 46 and 47 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 2008.

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 conferences immediately after the announcements of the Group's interim and annual results, and media meetings on the following day. In 2008, the Company made the Group's fourth annual results announcement and the fifth 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 8 May 2008, the Company held its Annual General Meeting at Room 3203, 32/F, Admiralty Centre I, 18 Harcourt Road, 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 2007
- Final dividend for the year ended 31 December 2007
- 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

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

For the year under review, the Company conducted 48 meetings and conference calls with investors and analysts. As part of its efforts to promote its image and reputation, the Group leveraged the networks and experience of a public relations firm. During 2008, a total of 12 media interviews were conducted with newspapers and 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 2008. Subject to the approval in the 2009 Annual General Meeting, the Company's Articles of Association shall be amended to accommodate the use of websites for communication with shareholders. To the best knowledge of the Company, as at 31 December 2008, 2 institutional investors held more than 12% of the Company's shares, the Board as a whole held roughly 9%, and the remaining approximately 79%, 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 (together the "Group") for the year ended 31 December 2008.

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 51.

The Directors recommend the payment of a final dividend of HK$0.03 per ordinary share out from the retained earnings, totaling HK$73,359,000 (approximately US$9,466,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 13 May 2009, is expected to be paid on 20 May 2009 to the shareholders of the Company whose names appear on the register of members of the Company on 13 May 2009, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 7 May 2009 to 13 May 2009, both days inclusive.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 27 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$85,000.

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 25 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2008, 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$15,064,000 and retained earnings of US$12,396,000 totaling US$135,883,000 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 104.

Purchase, sale or redemption of Company's listed shares

Except for the purchase of shares from the market by HSBC International Trustee Limited as set out in note 26 to the consolidated financial statements for the Share Award Plan, there were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries during the year.

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 equal to or higher than the average closing price of the shares for the five business days immediately proceeding the date of grant or the market closing price of the shares on the date of the grant. Each option gives the holder the right to subscribe for one share of the Company.

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

During the year, 6,100,000 share options granted on 14 June 2005 with an exercise price of HK$2.695 per share were lapsed on 30 June 2008.

On 24 July 2008, options to subscribe for 11,000,000 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$0.275 per share commencing from 1 July 2009 to 30 June 2011.

Share options *(continued)*

Details of the share options outstanding as at 31 December 2008 which have been granted under the Share Option Scheme are as follows:

Name of Participants	Number of options: Held on 1 January 2008	Lapsed during the year	Granted during the year	Held on 31 December 2008	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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,800,000	(800,000)	1,000,000	2,000,000				
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	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,500,000	(500,000)	1,000,000	2,000,000				
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	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,500,000	(500,000)	1,000,000	2,000,000				
Subtotal	**4,800,000**	(1,800,000)	3,000,000	**6,000,000**				

Share options *(continued)*

Details of the share options outstanding as at 31 December 2008 which have been granted under the Share Option Scheme are as follows: *(continued)*

	Number of options						Exercise period	
Name of Participants	Held on 1 January 2008	Lapsed during the year	Granted during the year	Held on 31 December 2008	Exercise price HK$	Grant Date	Begins	Ends
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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,800,000	(800,000)	1,000,000	2,000,000				
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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,800,000	(800,000)	1,000,000	2,000,000				
Leung Kwong Wai	800,000	(800,000)	—	—	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	—	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	408,000	—	—	408,000	1.430	7 February 2007	1 April 2009	31 March 2011
	612,000	—	—	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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	2,820,000	(800,000)	1,000,000	3,020,000				
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
	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,300,000	(300,000)	1,000,000	2,000,000				
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
	20,000	—	—	20,000	1.430	7 February 2007	1 April 2009	31 March 2011
	30,000	—	—	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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,350,000	(300,000)	1,000,000	2,050,000				
Lam Shun Fu, Percy	60,000	—	—	60,000	1.430	7 February 2007	1 April 2009	31 March 2011
	90,000	—	—	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
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	950,000	—	1,000,000	1,950,000				
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
	500,000	—	—	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,300,000	(300,000)	1,000,000	2,000,000				
Subtotal	**11,320,000**	(3,300,000)	7,000,000	**15,020,000**				

Share options *(continued)*

Details of the share options outstanding as at 31 December 2008 which have been granted under the Share Option Scheme are as follows: *(continued)*

Name of Participants	Number of options: Held on 1 January 2008	Lapsed during the year	Granted during the year	Held on 31 December 2008	Exercise price HK$	Grant Date	Exercise period: Begins	Ends
Senior management and employees								
Others	1,000,000	(1,000,000)	—	—	2.695	14 June 2005	1 July 2006	30 June 2008
	1,000,000	—	—	1,000,000	1.980	28 June 2006	1 July 2007	30 June 2009
	1,100,000	—	—	1,100,000	1.430	7 February 2007	1 April 2009	31 March 2011
	1,650,000	—	—	1,650,000	1.430	7 February 2007	1 April 2010	31 March 2012
	1,000,000	—	—	1,000,000	1.118	28 June 2007	1 July 2008	30 June 2010
	—	—	1,000,000	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
Subtotal	**5,750,000**	(1,000,000)	1,000,000	**5,750,000**				
Total	**21,870,000**	(6,100,000)	11,000,000	**26,770,000**				

Except for 6,100,000 and 11,000,000 share options lapsed and granted respectively during the year, there were no option being exercised or cancelled under the Share Option Scheme.

Valuation of options

The Company has been using the Black-Scholes Valuation Model to value the share options granted. Details of the key parameters used in the Model and the corresponding fair values of the options granted during the year should be referred to note 26(a) of the Notes to the Consolidated Financial statements.

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

	Value of share options granted on 24 July 2008 US$'000	Total US$'000
Mr. Sun, Patrick	6.4	6.4
Prof. Kao Kuen, Charles (resigned w.e.f. 1 March 2008)	—	—
Mr. Choy Kwok Hung, Patrick	6.4	6.4
Mr. Wong Yuet Leung, Frankie	6.4	6.4
Mr. Chang Ching Yi, Steven	6.4	6.4
Dr. Lam Pak Lee	6.4	6.4
Mr. Sheu Wei Fu (alternate to Dr. Lam Pak Lee)	—	—
Mr. Leung Kwong Wai	6.4	6.4
Mr. Huang Hsing Hua	6.4	6.4
Mr. Lai Woon Ching	6.4	6.4
Mr. Lam Shun Fu, Percy	6.4	6.4
Mr. Lo Wai Ming	6.4	6.4
Subtotal for Directors	**64.0**	64.0
Senior management	6.7	6.7
Total	**70.7**	70.7

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

Non-executive Director

Dr. Lam Pak Lee
Mr. Sheu Wei Fu (alternate to Dr. Lam Pak Lee)
Mr. Chang Ching Yi, Steven

Executive Director

Mr. Leung Kwong Wai (Managing Director)
Mr. Cheung Wai Kuen, Kenny (appointed on 9 March 2009)
Mr. Huang Hsing Hua
Mr. Lai Woon Ching
Mr. Lam Shun Fu, Percy (re-designated as Non-executive Director w.e.f. 1 February 2009)
Mr. Lo Wai Ming

The Company has entered into a service contract with Mr. Cheung Wai Kuen, Kenny engaging Mr. Cheung as an Executive Director of the Company for no fixed term, but Mr. Cheung is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. In accordance with Article 95 of the Company's Articles of Association, Mr. Cheung appointed as an addition to the Board, shall hold office until the forthcoming annual general meeting and being eligible, offer himself for re-election.

It was noted that Mr. Lam Shun Fu, Percy, was re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 February 2009 and the terms of Mr. Lam will end by 31 May 2009 or the day immediately before the next Annual General Meeting, whichever comes earlier. In accordance with Article 112 of the Company's Articles of Association, Dr. Lam Pak Lee, Mr. Lai Woon Ching and Mr. Lo Wai Ming, will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Messrs. Sun, Patrick, Choy Kwok Hung, Patrick and Wong Yuet Leung, Frankie, are Independent Non-executive Directors and their service contracts were renewed in 2008 for a term expiring on 30 June 2010.

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 30 to 31.

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 2008, 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 2008				
		Directly Owned		Beneficially Owned		% of the issued share capital of
Name of Director		Shares	Options(vi)	Shares	Total	the Company
Independent Non-executive Directors						
Sun, Patrick	Long	—	2,000,000	—	2,000,000	0.08%
	Short	—	—	—	—	—
Choy Kwok Hung, Patrick	Long	2,116,000	2,000,000	—	4,116,000	0.17%
	Short	—	—	—	—	—
Wong Yuet Leung, Frankie	Long	—	2,000,000	—	2,000,000	0.08%
	Short	—	—	—	—	—
Executive and Non-executive Directors						
Chang Ching Yi, Steven	Long	1,800,000	2,000,000	—	3,800,000	0.16%
	Short	—	—	—	—	—
Lam Pak Lee	Long	800,000	2,000,000	—	2,800,000	0.11%
	Short	—	—	—	—	—
Sheu Wei Fu	Long	—	—	—	—	—
(alternate to Lam Pak Lee)	Short	—	—	—	—	—
Leung Kwong Wai	Long	121,658,308	3,020,000	3,742,000(i)	128,420,308	5.25%
	Short	—	—	3,742,000(i)	3,742,000	0.15%
Huang Hsing Hua	Long	9,578,746	2,000,000	572,000(ii)	12,150,746	0.50%
	Short	—	—	572,000(ii)	572,000	0.02%
Lai Woon Ching	Long	30,323,032	2,050,000	572,000(iii)	32,945,032	1.35%
	Short	—	—	572,000(iii)	572,000	0.02%
Lam Shun Fu, Percy	Long	1,428,000	1,950,000	572,000(iv)	3,950,000	0.16%
	Short	—	—	572,000(iv)	572,000	0.02%
Lo Wai Ming	Long	32,000,179	2,000,000	572,000(v)	34,572,179	1.41%
	Short	—	—	572,000(v)	572,000	0.02%

(i) 3,742,000 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. 1,242,000 shares, 1,000,000 shares and 1,500,000 shares shall be vested respectively on 29 June 2009, 30 June 2009 and 30 June 2010.

(ii) 572,000 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. 192,000 shares, 152,000 shares and 228,000 shares shall be vested respectively on 29 June 2009, 30 June 2009 and 30 June 2010.

(iii) 572,000 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. 192,000 shares, 152,000 shares and 228,000 shares shall be vested respectively on 29 June 2009, 30 June 2009 and 30 June 2010.

(iv) 572,000 shares 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. 192,000 shares, 152,000 shares and 228,000 shares shall be vested respectively on 29 June 2009, 30 June 2009 and 30 June 2010. The 572,000 shares were forfeited on 31 January 2009 as a result of Mr. Lam ceased to be an employee of Solomon Systech Limited.

(v) 572,000 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. 192,000 shares, 152,000 shares and 228,000 shares shall be vested respectively on 29 June 2009, 30 June 2009 and 30 June 2010.

(vi) These are options granted under the Share Option Scheme with more details on pages 41 to 44.

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 2008, 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			
Name	**Capacity**	**Position**	**Number of shares held**	**% of the issued share capital of the Company**
State Street Corporation	Interest of Controlled Corporation	Lending Pool	166,771,337	6.82%
TIAA-CREF Investment Management, LLC	Beneficial Owner	Long	145,103,723	5.93%

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 2008.

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	55%
- five largest suppliers combined	81%
Sales	
- the largest customer	35%
- five largest customers combined	79%

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 25 March 2009.

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 2008.

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 2008.

Independent Auditor

The consolidated financial statements for the year ended 31 December 2008 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kwong Wai
Managing Director
Hong Kong, 25 March 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
33/F, Cheung Kong Center
2 Queen's Road 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 51 to 103, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the 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 no 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 judgment, 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 2008 and of the Group's loss 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, 25 March 2009

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Sales	5	**92,813**	164,952
Cost of sales		**(75,891)**	(125,497)
Gross profit		**16,922**	39,455
Other income		**653**	1,008
Other gain/(loss) - net	6	**(5,116)**	(227)
Research and development costs		**(19,327)**	(19,688)
Selling and distribution expenses		**(3,682)**	(3,308)
Administrative expenses		**(12,630)**	(11,479)
Other operating expenses		**(4,671)**	(28)
Operating (loss)/profit		**(27,851)**	5,733
Interest income	7	**4,603**	7,963
Finance costs	10	**(1)**	(1)
Share of results of associated companies	18	**(432)**	(754)
(Loss)/profit before taxation		**(23,681)**	12,941
Taxation	11	**283**	(2,752)
(Loss)/profit for the year		**(23,398)**	10,189
Attributable to:			
The equity holders of the Company		**(23,408)**	10,208
Minority interest		**10**	(19)
		(23,398)	10,189
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company (expressed in US cent per share)	13		
Basic		**(0.97)**	0.42
Diluted		**(0.96)**	0.41
Dividends	14	**9,466**	9,468

The notes on pages 57 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Goodwill	15	—	931
Property, plant and equipment	17	**8,859**	8,885
Investments in associated companies	18	**5,661**	2,031
Available-for-sale financial assets	20	**2,535**	4,686
		17,055	16,533
Current assets			
Inventories	22	**6,738**	15,291
Trade and other receivables	23	**11,920**	29,365
Financial assets at fair value through profit or loss	24	**15,634**	3,234
Other financial assets	21	**4,167**	3,749
Pledged bank deposits		**130**	130
Short-term fixed deposits	21	**46,897**	10,000
Cash and cash equivalents	21	**59,801**	124,069
		145,287	185,838
Total assets		**162,342**	202,371
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	25	**31,516**	31,516
Reserves	27(a)		
Proposed final dividend	14	**9,466**	6,256
Own shares held		**(1,458)**	(963)
Others		**104,043**	135,082
		143,567	171,891
Minority interest in equity		**229**	219
Total equity		**143,796**	172,110

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance leases	28	**3**	9
Other payables	30	**265**	—
Deferred tax liabilities	29	**108**	221
		376	230
Current liabilities			
Trade and other payables	30	**15,893**	26,554
Tax payables		**2,271**	3,343
Derivative financial instruments	31	**—**	124
Obligations under finance leases	28	**6**	10
		18,170	30,031
Total liabilities		**18,546**	30,261
Total equity and liabilities		**162,342**	202,371
Net current assets		**127,117**	155,807
Total asset less current liabilities		**144,172**	172,340

The notes on pages 57 to 103 are an integral part of these consolidated financial statements.

LEUNG Kwong Wai
Managing Director

LAI Woon Ching
Director

BALANCE SHEET

As at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**17**	221
Investments in subsidiaries	19(a)	**67,528**	66,204
		67,545	66,425
Current assets			
Trade and other receivables		**479**	1,007
Amounts due from subsidiaries	19(b)	**28,847**	14,389
Financial assets at fair value through profit or loss	24	**11,405**	3,234
Other financial assets	21	**3,167**	3,749
Short-term fixed deposits	21	**36,224**	10,000
Cash and cash equivalents	21	**20,101**	72,233
		100,223	104,612
Total assets		**167,768**	171,037
EQUITY			
Capital and reserves attributable to the equity holders of the company			
Share capital	25	**31,516**	31,516
Reserves	27(b)		
Proposed final dividend	14	**9,466**	6,256
Others		**126,417**	130,694
Total equity		**167,399**	168,466
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	**3**	39
Current liabilities			
Amounts due to subsidiaries	19(b)	**193**	2,159
Derivative financial instruments	31	**—**	124
Accrued expenses and other payables		**173**	249
		366	2,532
Total liabilities		**369**	2,571
Total equity and liabilities		**167,768**	171,037
Net current assets		**99,857**	102,080
Total asset less current liabilities		**167,402**	168,505

The notes on pages 57 to 103 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 2008

	Attributable to the equity holders of the Company									
	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 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	—	—	(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
At 1 January 2008	**31,516**	**82,809**	**(963)**	**2,082**	**201**	**13,468**	**42,778**	**171,891**	**219**	**172,110**
Exchange difference	**—**	**—**	**—**	**—**	**445**	**—**	**—**	**445**	**—**	**445**
Dividends paid, net of portion for own shares held	**—**	**—**	**—**	**—**	**—**	**—**	**(6,286)**	**(6,286)**	**—**	**(6,286)**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(23,408)**	**(23,408)**	**10**	**(23,398)**
Shares purchased for Share Award Scheme (note 26(b))	**—**	**—**	**(671)**	**—**	**—**	**—**	**—**	**(671)**	**—**	**(671)**
Equity compensation	**—**	**—**	**176**	**—**	**—**	**1,596**	**(176)**	**1,596**	**—**	**1,596**
At 31 December 2008	**31,516**	**82,809**	**(1,458)**	**2,082**	**646**	**15,064**	**12,908**	**143,567**	**229**	**143,796**

The notes on pages 57 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Operating activities			
Cash generated from operations	33(a)	**3,666**	39,857
Hong Kong profits tax paid		**(837)**	(1,837)
Overseas tax paid		**(40)**	(24)
Interest element of finance lease rental payments		**(1)**	(1)
Net cash generated from operating activities		**2,788**	37,995
Investing activities			
Acquisition of a subsidiary, net of cash acquired	16	**—**	1,173
Decrease in fixed bank deposits		**—**	2,000
Purchase of property, plant and equipment	17	**(4,913)**	(920)
Proceeds from disposal of property, plant and equipment	33(b)	**4**	—
Acquisition of associated companies	18	**(5,557)**	—
Advance to an associated company	18	**(60)**	(380)
Acquisition of available-for-sale financial assets		**—**	(2,151)
Increase in short-term fixed deposits		**(36,897)**	(1,917)
Increase in financial assets at fair value through profit or loss		**(17,661)**	(3,336)
Increase in other financial assets		**(418)**	(2,750)
Interest received		**5,337**	6,550
Net cash used in investing activities		**(60,165)**	(1,731)
Financing activities			
Repurchase of ordinary shares		**—**	(5,894)
Purchase of ordinary shares for Share Award Scheme		**(671)**	(677)
Payment of capital element of finance leases		**(10)**	(10)
Dividends paid		**(6,286)**	(15,984)
Net cash used in financing activities		**(6,967)**	(22,565)
Net (decrease)/increase in cash and cash equivalents		**(64,344)**	13,699
Exchange gain/(loss) on cash and cash equivalents		**76**	(52)
Cash and cash equivalents at 1 January		**124,069**	110,422
Cash and cash equivalents at 31 December		**59,801**	124,069
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**59,801**	124,069

The notes on pages 57 to 103 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 IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and lighting.

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 25 March 2009.

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 and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the consolidated 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) Amendments and interpretations effective in 2008

In 2008, the Group has adopted the following new amendments and interpretations to existing standards ("new HKFRS") effective for the Group's financial year beginning on or after 1 January 2008:

- HKAS 39 & HKFRS 7 (Amendments) — Amendments to HKAS 39 Financial instruments: Recognition and measurement and HKFRS 7 Financial instruments: Disclosures – Reclassification of financial assets
- HK(IFRIC) – Int 11 — HKFRS 2 – Group and treasury share transactions

2. Summary of significant accounting policies *(continued)*

2.1. Basis of preparation (continued)

(b) Interpretations effective in 2008 but not relevant

The following interpretations to published standards are mandatory for the accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

• HK(IFRIC) – Int 12	Service concession arrangements
• HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the above amendments and interpretations to existing standards 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.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

• HKAS 1 (Revised)	Presentation of financial statements
• HKAS 23 (Revised)	Borrowing costs
• HKAS 27 (Revised)	Consolidated and separate financial statements
• HKAS 32 and HKAS 1 (Amendments)	Financial instruments: Presentation and Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation
• HKAS 39 (Amendment)	Financial instruments: Recognition and measurement - Eligible hedged items
• HKFRS 1 (Amendment) and HKAS 27	First time adoption of HKFRS and Consolidated and separate financial statements
• HKFRS 2 (Amendment)	Share-based payment
• HKFRS 3 (Revised)	Business combinations
• HKFRS 8	Operating segments
• HK(IFRIC) - Int 13	Customer loyalty programmes
• HK(IFRIC) - Int 15	Agreements for construction of real estates
• HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation
• HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
• HK(IFRIC) - Int 18	Transfers of assets from customers

2. Summary of significant accounting policies *(continued)*

2.1. Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

Improvements to the following HKFRS from the Hong Kong Institute of Certified Public Accounts published in October 2008:

• HKAS 1 (Amendment)	Presentation of financial statements
• HKAS 2 (Amendment)	Inventories
• HKAS 16 (Amendment)	Property, plant and equipment (and consequential amendment to HKAS 7, 'Statement of cash flows')
• HKAS 19 (Amendment)	Employee benefits
• HKAS 20 (Amendment)	Accounting for government grants and disclosure of government assistance
• HKAS 23 (Amendment)	Borrowing costs
• HKAS 27 (Amendment)	Consolidated and separate financial statements
• HKAS 28 (Amendment)	Investments in associates (and consequential amendments to HKAS 32, 'Financial instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures')
• HKAS 29 (Amendment)	Financial reporting in hyperinflationary economies
• HKAS 31 (Amendment)	Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7)
• HKAS 36 (Amendment)	Impairment of assets
• HKAS 38 (Amendment)	Intangible assets
• HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
• HKAS 40 (Amendment)	Investment property (and consequential amendment to HKAS 16)
• HKAS 41 (Amendment)	Agriculture
• HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations (and consequential amendment to HKFRS 1, 'First-time adoption')

- Minor amendments to HKFRS 7 'Financial instruments: Disclosures', HKAS 8 'Accounting policies, changes in accounting estimates and errors', HKAS 10 'Events after the balance sheet date', HKAS 18 'Revenue' and HKAS 34 'Interim financial reporting'.

The Group has already commenced an assessment of the impact of the new standards, amendments and interpretations to existing standards but is not yet in a position to state whether these new standards, amendments and interpretations to existing standards would have a significant impact to its results of operations and financial position.

2. Summary of significant accounting policies *(continued)*

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. 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.

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 (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 in the consolidated financial statements 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 all 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 using the equity method of accounting and are initially recognized at cost. The Group's investments in associated companies include goodwill identified on acquisition, net of any accumulated impairment losses (note 2.7).

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated 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.

Dilution gains or losses arising in investments in associated companies are recognized in the consolidated income statement.

In the consolidated and Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses (note 2.7). The results of associated companies 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 or valuation where items are remeasured. 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 consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within 'administrative expenses'.

2. Summary of significant accounting policies *(continued)*

2.4. Foreign currency translation *(continued)*

(b) Transactions and balances (continued)
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 consolidated income statement and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale, are included in the available-for-sale reserve in equity.

(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, exchange differences that were recorded in equity are recognized in the consolidated 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated 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:

Freehold land	– (not amortized)
Building	2%
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%

2. Summary of significant accounting policies *(continued)*

2.5. Property, plant and equipment (continued)

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 'administrative expenses' in the consolidated income statement.

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 for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses 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, for example goodwill, 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

2.8.1 Classification

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 designated by management as fair value through profit or loss upon initial recognition. Financial assets are classified in this category because they are managed and their performance are evaluated on a fair value basis, in accordance with the Group's investment strategy. 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. These are classified as non-current assets. Loans and receivables include trade and other receivables, cash and cash equivalents and fixed deposits in the balance sheet (notes 2.11 and 2.12).

2. Summary of significant accounting policies *(continued)*

2.8. Financial assets (continued)

2.8.1 Classification (continued)

(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.

2.8.2 Recognition and measurement

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. 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 consolidated 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 consolidated income statement as 'other gain/(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 consolidated 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 analyzed 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 consolidated income statement; 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 consolidated income statement as 'other operating expenses'.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the consolidated income statement as part of other income. Dividends on available-for-sale financial assets are recognized in the consolidated income statement as '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 loss.

2. Summary of significant accounting policies *(continued)*

2.8. Financial assets (continued)

2.8.2 Recognition and measurement (continued)

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 as an indication that 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 consolidated income statement, is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in note 2.11.

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 within 'other gain/(loss) - net' in the consolidated income statement.

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 defaults of delinquency in payments are considered indicators that the 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 consolidated 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 consolidated income statement.

2.12. Cash and cash equivalents

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 the 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 the equity attributable to the Company's equity holders.

2. Summary of significant accounting policies *(continued)*

2.14. Current and deferred income tax

The tax (income)/expense for the period comprises current and deferred tax and is recognized in consolidated income statement. 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 and its 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. It 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, the deferred income tax is not accounted for if it 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. 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, 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 shares or share 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 consolidated 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. The Trustee may be instructed to buy shares from the market using the funds held by the Trustee. Detail of outstanding shares can be referred to note 26(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 26(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 bonus 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 and other payables

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

2. Summary of significant accounting policies *(continued)*

2.18. Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of products and services in the ordinary course of the Group's activities. Revenue is shown 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) Sales of services
Sales of services are recognized when the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) 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.

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

2.19. Leases (as the lessee)

(a) Operating leases
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 consolidated income statement on a straight-line basis over the period of the lease.

(b) Finance leases
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 consolidated 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. Summary of significant accounting policies *(continued)*

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 consolidated 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 HKAS 36 - 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.

2.23. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation for a fairer presentation of the Group's activities. These reclassifications have no effect on the Group's consolidated financial position as at both 31 December 2007 and 2008, or the Group's consolidated profit/loss or cash flow for the years ended 31 December 2007 and 2008.

3. Financial risk management

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.

3.1. Financial risk factors

(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 ("CNY"), Japanese Yen ("JPY"), Singapore Dollars ("SGD") and New Taiwan Dollars ("NTD"). 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 2008, if US dollar had weakened/strengthened by 5% against other Asian currencies with all other variables held constant, post-tax loss for the year would have been approximately US$846,000 lower/higher (2007 post-tax profit: US$621,000 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 as financial assets 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 invests only on high turnover blue chips with good dividend yield.

At 31 December 2008, the Group held equity financial instruments (note 24). If the equity price had increased/decreased by 10% with all other variables held constant, the post-tax loss for the year would have been approximately US$1,563,000 lower/higher (2007 post-tax profit: US$323,000 higher/lower) 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 2008, 21% of the gross trade receivables is related to a reputable distributor and 82% is related to the top 5 customers.

The Group has been monitoring the receivables aging closely. As at 31 December 2008, past due amount account for 75% (2007: 54%). No impairment was made to these receivables since these customers are settling the past due amount and there is no recent history of default. None of the customers as at 31 December 2007 and 2008 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 21)) was closely monitored on the basis of expected cash flow.

The table below analyses the Group's and the Company's 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	
	2008 USD'000	2007 USD'000	**2008 USD'000**	2007 USD'000
Due within 12 months				
Trade and other payables	**15,893**	26,554	**173**	249
Derivative financial instruments	**—**	124	**—**	124
Obligations under finance leases	**6**	10	**—**	—
Amounts due to subsidiaries	**—**	—	**193**	2,159
Due between 1-2 years				
Other payables	**265**	—	**—**	—
Obligations under finance leases	**3**	9	**—**	—

(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 significant 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.

The investments in available-for-sale financial assets and financial assets at fair value through profit or loss do not have material interest rate risk.

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 2008, the Group has no material borrowing. The reduction in shareholders' funds is mainly due to the payment of dividend and the loss for the year.

3. Financial risk management *(continued)*

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 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 carrying value less impairment provision 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 addressed 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.

(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.

(e) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of goodwill arising from acquisition of subsidiaries and associated companies have been determined based on the higher of fair value less cost-to-sell or value-in-use calculations. These calculations require the use of estimates.

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 IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and lighting.

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$92,813,000 and US$164,952,000 for the years ended 31 December 2008 and 2007 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, Mainland China ("China") and Japan.

(i) Sales

	2008 US$'000	2007 US$'000
Hong Kong	**56,026**	112,094
Taiwan	**13,272**	24,720
China	**10,237**	5,644
Japan	**4,501**	6,042
Korea	**2,934**	1,425
South East Asia	**2,718**	11,845
United States of America ("USA")	**550**	280
Others	**2,575**	2,902
	92,813	164,952

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

(ii) Total assets

	2008 US$'000	2007 US$'000
Hong Kong	**146,776**	178,718
Taiwan	**7,413**	11,835
Others	**8,153**	11,818
	162,342	202,371

Assets are allocated based on where the assets are located. Others comprise China, Japan, South East Asia and the USA.

5. Segment information – Group *(continued)*

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

(iii) Capital expenditures

	Property, plant and equipment		Investments in Associated companies		Investments in Available-for-sale financial assets	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Hong Kong	**1,383**	328	**4,760**	380	**—**	—
China	**298**	145	**857**	—	**—**	—
Taiwan	**2,801**	74	**—**	—	**—**	—
South East Asia	**422**	370	**—**	—	**—**	—
USA	**—**	—	**—**	—	**—**	2,151
Others	**9**	3	**—**	—	**—**	—
	4,913	920	**5,617**	380	**—**	2,151

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

6. Other gain/(loss) – net – Group

	2008 US$'000	2007 US$'000
Financial assets at fair value through profit or loss (note 24):		
– Fair value gain	**234**	27
– Fair value loss	**(5,474)**	(129)
Other financial assets	**—**	(1)
Derivative financial instruments – fair value gain/(loss)	**124**	(124)
	(5,116)	(227)

7. Interest income – Group

	2008 US$'000	2007 US$'000
Bank interest income	**3,815**	7,963
Interest income from financial assets at fair value through profit or loss	**788**	—
	4,603	7,963

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:

	2008 US$'000	2007 US$'000
Loss on disposal of property, plant and equipment (note 33)	**1**	99
Auditor's remuneration	**162**	151
Depreciation of owned property, plant and equipment	**5,296**	6,225
Depreciation of leased property, plant and equipment	**3**	11
Operating leases for land and buildings	**1,289**	1,107
Employee benefit expenses (excluding Directors' emoluments (note 9(a))	**19,448**	17,514
Directors' emoluments (note 9(b))	**1,711**	2,479
Net exchange loss/(gain)	**712**	(187)
Provision for impairment loss of available-for-sale financial assets (note 20)	**2,151**	—
Provision for impairment loss of investments in associated companies (note 18)	**1,555**	—
Provision for impairment loss of goodwill (note 15)	**931**	—
Provision for impairment of receivables (note 23)	**29**	20
Provision for obsolete or slow moving inventories (note 22)	**4,716**	1,926

9. Employee benefit expenses – Group

(a) Employee benefit expenses

	2008 US$'000	2007 US$'000
Wages and salaries	**16,838**	12,934
Discretionary bonuses	**129**	676
Equity compensation – shares and share options	**923**	2,771
Pension costs – defined contribution plans [(i)]	**637**	585
Other employee benefits	**921**	548
	19,448	17,514

(i) Forfeited contributions to certain defined contribution plans are utilized to reduce future contributions. During the year, there was US$51,000 of contribution being forfeited (2007: US$21,000).

9. Employee benefit expenses – Group *(continued)*

(b) Directors' emoluments

The remuneration of every director of the Company including the equity compensation charged to the consolidated income statement under the requirements of HKFRS 2 "Share-based payment" is set out below:

	For the year ended 31 December 2008									
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	—	281	—	—	7	11	—	299	317	616
Huang Hsing Hua	—	126	—	—	8	6	—	140	55	195
Lai Woon Ching	—	134	—	—	2	6	—	142	56	198
Lam Shun Fu, Percy	—	170	—	—	2	8	—	180	110	290
Lo Wai Ming	—	131	—	—	2	6	—	139	55	194
Chang Ching Yi, Steven	22	—	—	—	—	—	—	22	14	36
Lam Pak Lee	23	—	—	—	—	—	—	23	14	37
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—	—	—	—
Choy Kwok Hung, Patrick	28	—	—	—	—	—	—	28	14	42
Kao Kuen, Charles	4	—	—	—	—	—	—	4	10	14
Sun, Patrick	33	—	—	—	—	—	—	33	14	47
Wong Yuet Leung, Frankie	28	—	—	—	—	—	—	28	14	42
Total	138	842	—	—	21	37	—	1,038	673	1,711

9. Employee benefit expenses – Group *(continued)*

(b) ***Directors' emoluments*** *(continued)*

	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

(i) Discretionary bonuses were determined by the Remuneration Committee of the Group after taking into account of the Group's results 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 the consolidated income statement under the requirements of HKFRS 2. Equity compensation granted in prior years with vesting term extended into the year has an impact to the current year.

9. Employee benefit expenses – Group *(continued)*

(c) Equity compensation to Directors

More details for the Equity Compensation Scheme can be referred to note 26 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:

Name of Director	2008 Number of Share Options granted (In thousand)	2008 Fair value of the Share Option at grant date[ii] US$'000	2008 Number of shares granted[i] (In thousand)	2008 Fair value of the share at grant date[ii] US$'000	2007 Number of Share Options granted (In thousand)	2007 Fair value of the Share Options at grant date US$'000	2007 Number of shares granted (In thousand)	2007 Fair value of the share at grant date US$'000
Leung Kwong Wai	**1,000**	**6.4**	**2,500**	**89**	1,520	64	2,070	294
Huang Hsing Hua	**1,000**	**6.4**	**380**	**13**	500	21	320	45
Lai Woon Ching	**1,000**	**6.4**	**380**	**13**	550	23	320	45
Lam Shun Fu, Percy	**1,000**	**6.4**	**380**	**13**	950	39	320	45
Lo Wai Ming	**1,000**	**6.4**	**380**	**13**	500	21	320	45
Chang Ching Yi, Steven	**1,000**	**6.4**	**—**	**—**	500	21	—	—
Lam Pak Lee	**1,000**	**6.4**	**—**	**—**	500	21	—	—
Sheu Wei Fu (alternate to Lam Pak Lee)	**—**	**—**	**—**	**—**	—	—	—	—
Choy Kwok Hung, Patrick	**1,000**	**6.4**	**—**	**—**	500	21	—	—
Kao Kuen, Charles	**—**	**—**	**—**	**—**	500	21	—	—
Sun, Patrick	**1,000**	**6.4**	**—**	**—**	500	21	—	—
Wong Yuet Leung, Frankie	**1,000**	**6.4**	**—**	**—**	500	21	—	—
Total	**10,000**	**64.0**	**4,020**	**141**	7,020	294	3,350	474

(i) A total of 4,020,000 shares under the Share Award Plan of the Company were granted to the Executive Directors of the Company during the year of which 1,608,000 shares (40% of the 4,020,000) will be vested on 30 June 2009 and 2,412,000 shares (60% of the 4,020,000) will be vested on 30 June 2010.

(ii) These represent the full fair value at grant date to be amortized in the next 12 months for the share option or in accordance with the vesting terms of the share grant and may differ from the total charge to the consolidated income statement of the year.

9. Employee benefit expenses – Group *(continued)*

(d) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include four (2007: five) directors whose emoluments are reflected in the analysis above. The emolument paid and payable to the remaining individual in 2008 is as follows:

	2008	2007
Number of individuals (excluding Directors of the Company)	**1**	—

	2008 US$'000	2007 US$'000
Basic salaries, other allowances and benefits in kind	**200**	—
Discretionary bonuses	**—**	—
Employer's contribution to pension scheme	**9**	—
	209	—
Equity compensation	**—**	—
	209	—

The emoluments fell within the following band:

	Number of individuals	
Emolument band	**2008**	2007
US$200,001 to US$250,000	**1**	—

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group. US$63,000 was accrued for payment in lieu of notice and compensation for an executive director whose employment ceased by end of January 2009 in accordance with the Employment Ordinance, the employment term and Company's policy (2007: Nil).

10. Finance costs – Group

	2008 US$'000	2007 US$'000
Interest element of finance leases	**1**	1

11. Taxation – Group

No provision for Hong Kong and overseas profits tax has been made as the Group has no assessable profits for the year. Hong Kong profits tax had been provided at the rate of 17.5% in 2007 on the estimated assessable profit for the year ended 31 December 2007. Taxation on overseas profits had been calculated on the estimated assessable profit for the year ended 31 December 2007 at the rates of taxation prevailing in the countries in which the Group operated.

	2008 US$'000	2007 US$'000
Current tax:		
Hong Kong profits tax	—	3,118
Overseas profits tax	—	51
(Over)/under provisions in prior years	**(170)**	189
Deferred tax (note 29)	**(113)**	(606)
	(283)	2,752

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

	2008 US$'000	2007 US$'000
(Loss)/profit before tax	**(23,681)**	12,941
Tax calculated at a tax rate of 16.5% [(i)]	**(3,907)**	2,265
Income not subject to tax	**(1,486)**	(1,444)
Expenses not deductible for tax purposes	**2,195**	1,032
Utilization of previously unrecognized tax losses	—	(164)
Tax losses not recognized	**3,095**	852
Remeasurement of deferred tax – change in Hong Kong tax rate[(ii)]	**(13)**	—
Effect of different tax rates in other countries	**3**	22
(Over)/under provisions in prior years	**(170)**	189
Tax (credit)/expense	**(283)**	2,752

(i) Profits tax rates for 2008 and 2007 are 16.5% and 17.5% respectively.

(ii) During the year, as a result of the change in the Hong Kong corporation tax rate from 17.5% to 16.5% that has been effective from 1 April 2008, deferred tax balances were remeasured.

12. Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to extent of profit of US$3,623,000 (2007: US$3,706,000).

13. (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit attributable to the equity holders of the Company. The loss attributable to the equity holders of the Company for the year is US$23,408,000 (2007 profit: US$10,208,000).

Basic (loss)/earnings per share is based on the weighted average number of 2,416,930,170 (2007: 2,453,274,184) ordinary shares in issue during the year excluding own shares held during the year.

Diluted earnings per share is based on 2,437,669,973 (2007: 2,476,967,789) 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 calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007
Weighted average number of ordinary shares in issue	**2,416,930,170**	2,453,274,184
Adjustments for allocated own shares under Share Award Scheme	**20,739,803**	23,693,605
Weighted average number of ordinary shares for diluted (loss)/earnings per share	**2,437,669,973**	2,476,967,789

14. Dividends

	2008 US$'000	2007 US$'000
(a) Final dividend attributed to the year:		
2008 final dividend, proposed, of HK$0.03 (approximately 0.39 US cent) per ordinary share[i]	**9,466**	—
2007 final dividend, paid, of HK$0.02 (approximately 0.26 US cent) per ordinary share[ii]	—	6,286
Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	—	—
	9,466	6,286
(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	—	3,182
Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	—	—
	—	3,182
Dividends attributed to the year	**9,466**	9,468

(i) At a meeting held on 25 March 2009, the Directors recommended the payment of a final dividend of HK$0.03 per ordinary share, totaling HK$73,359,000 (approximately US$9,466,000). 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 2009.

(ii) On 27 March 2008, the Directors recommended the payment of a final dividend of HK$0.02 per ordinary share. The final dividend was paid on 22 May 2008.

15. Goodwill and intangible assets - Group

	Goodwill US$'000	Patents and intellectual property US$'000	Total US$'000
At 1 January 2007			
Cost	—	4,500	4,500
Accumulated amortization	—	(4,500)	(4,500)
Net book amount	—	—	—
Year ended 31 December 2007			
Opening net book amount	—	—	—
Transfer from investment in an associated company (note 18)	742	—	742
Acquisition of a subsidiary (note 16)	189	—	189
Closing net book amount	931	—	931
At 31 December 2007			
Cost	931	4,500	5,431
Accumulated amortization	—	(4,500)	(4,500)
Net book amount	931	—	931
Year ended 31 December 2008			
Opening net book amount	931	—	931
Impairment charge[(i)]	(931)	—	(931)
Closing net book amount	—	—	—
At 31 December 2008			
Cost	—	4,500	4,500
Accumulated amortization	—	(4,500)	(4,500)
Net book amount	—	—	—

(i) Impairment charge of US$931,000 is included in the other operating expenses in the consolidated income statement.

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.

The goodwill of US$931,000 is related to the acquisition of an associated company which eventually became a subsidiary of the Group in late 2007.

The Directors have reviewed the carrying value of the goodwill as at 31 December 2008. Due to adverse economic situation in 2008, the subsidiary missed the cash flow target in 2008 which was set in late 2007 and incurred loss in 2008. Taking into account the business environment and the cash flow forecast of the subsidiary for the next three years, the Directors concluded that the goodwill has been impaired and a full provision has therefore been made. The key assumptions underlying the cash flow forecast included 25% compound growth rate in revenue per annum and a discount rate of 3%.

16. Business combinations – Group

On 1 December 2007, the Group acquired additional 45% of the equity interest of WE3 Technology Company Limited ("WE3-HK") which is engaged in the design, development & distribution of handsets solutions for a total consideration of US$237,000. 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 as of 1 December 2007.

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 interest (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 Groups shareholding in WE3-BVI		220
Total purchase consideration		237
Goodwill (note 15)		189
Purchase consideration settled in cash		(17)
Cash and cash equivalents in a subsidiary acquired		1,190
Cash inflow from acquisition		1,173

17. Property, plant and equipment

	Group						Company
	Land[i] and Building US$'000	Leasehold improvements US$'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 2007							
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	—	—	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
Year ended 31 December 2008							
Opening net book amount	**—**	**299**	**2,957**	**5,629**	**—**	**8,885**	**221**
Exchange differences	**—**	**4**	**30**	**331**	**—**	**365**	**—**
Additions	**1,662**	**310**	**1,478**	**1,393**	**70**	**4,913**	**—**
Disposals	**—**	**—**	**(1)**	**(4)**	**—**	**(5)**	**—**
Depreciation	**—**	**(287)**	**(2,434)**	**(2,572)**	**(6)**	**(5,299)**	**(204)**
Closing net book amount	**1,662**	**326**	**2,030**	**4,777**	**64**	**8,859**	**17**
At 31 December 2008							
Cost	**1,662**	**2,470**	**13,600**	**17,803**	**197**	**35,732**	**611**
Accumulated depreciation	**—**	**(2,144)**	**(11,570)**	**(13,026)**	**(133)**	**(26,873)**	**(594)**
Net book amount	**1,662**	**326**	**2,030**	**4,777**	**64**	**8,859**	**17**

(i) Freehold land in Taiwan of US$686,000 was included in the land and building.

(ii) Depreciation expense of US$1,760,000 (2007: US$1,323,000) has been charged in cost of sales, US$1,620,000 (2007: US$2,681,000) in research and development costs and US$1,919,000 (2007: US$2,232,000) in administrative expenses.

(iii) The net book value of furniture, fixtures and office equipment of US$2,030,000 includes an amount of US$Nil (2007: US$3,000) in respect of assets held under finance leases.

18 Investments in associated companies – Group

	2008 US$'000	2007 US$'000
At 1 January	**2,031**	3,185
Acquisition of associated companies	**5,557**	—
Advance to an associated company	**60**	380
Share of results of associated companies	**(432)**	(754)
Provision for impairment loss of investments in associated companies	**(1,555)**	—
Transfer to goodwill (note 15)	**—**	(742)
Transfer to investment in a subsidiary (note 16)	**—**	(38)
At 31 December	**5,661**	2,031

Investments in associated companies as at 31 December 2008 included goodwill of US$1,723,000 (2007: Nil).

The Directors have reviewed the carrying amounts of the investments in associated companies compared with the fair value of assets in use. The carrying amounts of the investments in associated companies have been reduced through recognition of an impairment loss of US$1,555,000 (2007: Nil) of which US$1,068,000 and US$487,000 are for Advanced Photoelectronic Technology Limited (formerly known as Advanced Packaging Technology Limited) ("APT") and EPD Technology Limited respectively. The loss has been included in the other operating expenses in the consolidated income statement.

(a) Impairment test for investments in associated companies

The recoverable amount is determined based on the fair value less cost-to-sell. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the cost of disposal. The valuation was performed on 31 December 2008 and the recoverable amount determined based on fair value less cost to sell was considered appropriate. Before arriving at the valuation, the following principal factors were considered:

- the economic outlook in general and the specific economic and competitive elements affecting the associated companies' businesses, their industries and their markets;
- the nature and prospects of the industries in which the associated companies are participating;
- the market-derived investment returns of entities engaged in a similar line of businesses;
- the stage of development of the associated companies' operations; and
- the business risks of the associated companies.

18 Investments in associated companies – Group *(continued)*

(b) Assumptions used in the impairment test

Due to the changing environment in which the associated companies are operating, a number of assumptions have to be made in order to sufficiently support the concluded value of the associated companies. The major assumptions adopted were:

- there will be no major changes in the existing political, legal, fiscal and economic conditions and relevant governmental policies in countries in which the associated companies will carry on its business;
- there will be no major changes in the current taxation law in countries in which the associated companies operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of finance will not be a constraint on the future growth of the associated companies' operations;
- the associated companies will retain and have competent management, key personnel, and technical staff to support their ongoing operations; and
- industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

On 25 March 2008, the Group acquired 20% equity interest of Shenzhen aigo Research and Development Co., Ltd (深圳市愛國者嵌入式系統科技有限公司) ("aigo") which is engaged in the design, development and distribution of mobile multimedia solutions for a cash consideration of CNY6,000,000 (approximately US$857,000). The share of post-acquisition loss for the period was US$11,000.

On 5 August 2008, the Group acquired 21.6% equity interest of APT which is engaged in the development, manufacturing and sale of high-brightness light-emitting devices, advanced IC productions, and the research, development and consultancy work pertaining to the aforesaid products for a cash consideration of US$4,700,000. The share of post-acquisition loss for the period was US$220,000.

18 Investments in associated companies – Group *(continued)*

The details of the net assets acquired for the associated companies as of the date of acquisition during 2008 are as follows:

	Unaudited			
	aigo		APT	
	Fair value US$'000	Carrying amount in the books of the associated company US$'000	Fair value US$'000	Carrying amount in the books of the associated company US$'000
Cash and cash equivalents	354	354	10,150	10,150
Intangible assets	182	182	1,079	1,079
Property, plant and equipment	148	148	2,051	2,051
Inventories	115	115	916	916
Trade and other receivables	403	403	253	253
Trade and other payables	(192)	(192)	(2,579)	(2,579)
Net assets	1,010	1,010	11,870	11,870
Fair value of net assets acquired		202		2,564
Purchase consideration settled in cash		857		4,700
Goodwill		655		2,136

The goodwill are attributable to the workforce of the associated companies and the synergy expected to arise after the acquisition.

The aggregated assets (excluding goodwill) and liabilities together with the results of the year of the Group's associated companies, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2008 Assets US$'000	As at 31 December 2008 Liabilities US$'000	For the year ended 31 December 2008 Revenue US$'000	For the year ended 31 December 2008 Profit/(loss) US$'000	Interest held indirectly
EPD Technology Limited	Hong Kong	Design, development, manufacturing & distribution of E-paper display modules	100,000 ordinary shares of HK$1 each	**1,402**	**2,260**	**52**	**(518)**	40%
Kitronix Limited	Hong Kong	Design, development, manufacturing & distribution of LCD modules	9,500,000 ordinary shares of HK$1 each	**7,047**	**1,426**	**21,431**	**25**	25%
Shenzhen aigo Research and Development Co., Ltd	China	Design, development and distribution of mobile multimedia solutions	1,000,000 ordinary shares of CNY1 each	**1,127**	**167**	**1,336**	**93**	20%
Advanced Photoelectronic Technology Limited	Hong Kong	Development, manufacturing, sale of high-brightness light-emitting devices	841,469 ordinary shares of HK$1 each	**11,227**	**376**	**53**	**(1,852)**	21.6%
				20,803	**4,229**	**22,872**	**(2,252)**	

18 Investments in associated companies – Group *(continued)*

The aggregated assets (excluding goodwill) and liabilities together with the results of the year of the Group's associated companies, all of which are unlisted, are as follows: *(continued)*

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2007 Assets US$'000	As at 31 December 2007 Liabilities US$'000	For the year ended 31 December 2007 Revenue US$'000	For the year ended 31 December 2007 Gain/(loss) US$'000	Interest held indirectly
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%
				8,673	3,509	8,202	281	

19. Investments in subsidiaries

(a) *Investments in subsidiaries*

	Company 2008 US$'000	Company 2007 US$'000
Investments in unlisted shares, at cost	**67,683**	66,204
Less: Provision for impairment loss	**(155)**	—
	67,528	66,204

(b) *Amounts due from/(to) subsidiaries*

	Company 2008 US$'000	Company 2007 US$'000
Amounts due from subsidiaries	**34,203**	15,756
Less: Provision for impairment loss	**(5,356)**	(1,367)
	28,847	14,389
Amounts due to subsidiaries	**(193)**	(2,159)

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

The carrying value of the 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 subsidiaries, taking into consideration of the forecasted performance and development of that subsidiaries by management.

19. Investments in subsidiaries *(continued)*

(c) Particulars of subsidiaries

The following is a list of the principal subsidiaries at 31 December 2008:

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%
Broadwood Global Limited ("BGL")	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%
In Achieve Limited ("In Achieve")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$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%
Pac-Pacific Limited ("Pac-Pacific")	Hong Kong, LLC	Investment holding, Hong Kong	2 ordinary shares of HK $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%

19. Investments in subsidiaries *(continued)*

(c) ***Particulars of subsidiaries*** *(continued)*

The following is a list of the principal subsidiaries at 31 December 2008: *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Indirectly held:				
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 Inc. ("SSI")	U.S.A., LLC	Market research, U.S.A.	20,000 ordinary shares of US$1 each	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%
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 Taiwan Limited ("SST")	Republic of China ("Taiwan"), LLC	Market research, Taiwan	5,000,000 ordinary shares of TWD10 each	100%
Systech Technology China Limited ("STCL")	Hong Kong, LLC	Investment holding, Hong Kong	10,000 ordinary shares of HK$1 each	100%
WE3 Technology Company Limited	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. Available-for-sale financial assets – Group

	2008 US$'000	2007 US$'000
Unlisted shares, at cost	6,337	6,337
Less: Provision for impairment loss	(3,802)	(1,651)
	2,535	4,686

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

Available-for-sale financial assets are denominated in the following currencies:

	2008 US$'000	2007 US$'000
US Dollar (USD)	2,346	4,497
Other currencies	189	189
	2,535	4,686

21. Cash and cash equivalents, short-term fixed deposits and other financial assets

	Group		Company	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Cash at bank and in hand	13,981	5,959	4,424	121
Short-term bank deposits[i]	45,820	118,110	15,677	72,112
Cash and cash equivalents	59,801	124,069	20,101	72,233
Short-term fixed deposits[ii]	46,897	10,000	36,224	10,000
Other financial assets[iii]	4,167	3,749	3,167	3,749
	110,865	137,818	59,492	85,982

(i) The effective interest rate on short-term bank deposits was 3.7% per annum (2007: 4.9% per annum); these deposits have an average maturity of 23 days (2007: 22 days).

(ii) The effective interest rate on short-term fixed deposits was 3.2% per annum (2007: 4.6% per annum); these deposits have an average maturity of 124 days (2007: 127 days).

(iii) 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 and other financial assets are denominated in the following currencies:

	Group		Company	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
US Dollar (USD)	99,776	127,972	52,592	79,355
Hong Kong Dollar (HKD)	6,218	7,303	4,949	5,500
Chinese Yuan (CNY)	1,491	1,109	—	—
Other currencies	3,380	1,434	1,951	1,127
	110,865	137,818	59,492	85,982

22. Inventories – Group

	2008 US$'000	2007 US$'000
Finished goods	**4,957**	3,625
Raw materials and work in progress	**11,885**	20,111
	16,842	23,736
Less: Provision for obsolete or slow moving inventories	**(10,104)**	(8,445)
	6,738	15,291

The cost of inventories recognized as expense and included in cost of sales amounted to US$67,198,000 (2007: US$123,695,000).

Movements on the provision for obsolete or slow moving inventories are as follows:

	2008 US$'000	2007 US$'000
At 1 January	**8,445**	7,479
Scrap of inventories	**(3,057)**	(960)
Provision for obsolete or slow moving inventories	**4,716**	1,926
At 31 December	**10,104**	8,445

23. Trade and other receivables – Group

	2008 US$'000	2007 US$'000
Trade receivables	**8,971**	24,843
Less: provision for impairment of receivables	**(60)**	(395)
Trade receivables - net	**8,911**	24,448
Prepayments and other receivables	**3,009**	4,917
	11,920	29,365

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

	2008 US$'000	2007 US$'000
Current	**2,188**	11,164
Ageing:		
1 - 30 days	**2,530**	6,861
31 - 60 days	**1,407**	4,863
61 - 90 days	**861**	1,385
91 - 180 days	**1,925**	169
181 - 365 days	**—**	6
	6,723	13,284
	8,911	24,448

As of 31 December 2008, trade receivables of US$6,723,000 (2007: US$13,284,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since these customers are settling the past due amount and there is no recent history of default.

23. Trade and other receivables – Group *(continued)*

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

	2008 US$'000	2007 US$'000
US Dollar (USD)	**10,592**	26,946
Hong Kong Dollar (HKD)	**802**	592
Singapore Dollar (SGD)	**85**	1,607
Other currencies	**441**	220
	11,920	29,365

As of 31 December 2008, trade receivables of US$60,000 (2007: US$395,000) were impaired and provided for. The amount of the provision was US$60,000 as of 31 December 2008 (2007: US$395,000). The ageing of these receivables is as follows:

	2008 US$'000	2007 US$'000
Over 6 months	**60**	395

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

	2008 US$'000	2007 US$'000
At 1 January	**395**	61
Provision for receivable impairment	**29**	20
Provision for receivable impairment arising on acquisition of a subsidiary	**—**	314
Receivables written off during the year as uncollectible	**(364)**	—
At 31 December	**60**	395

The creation and reversal of provision for impaired receivables have been included in the selling and distribution expenses in the consolidated income statement (note 8). Amounts charged to the allowance account are generally written off, when there is no expectation of recovery.

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

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

24. Financial assets at fair value through profit or loss

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Unlisted				
Equity-linked deposits	**4,994**	2,695	**4,994**	2,695
Deposit notes	**1,973**	—	**978**	—
Investment fund	**3,234**	—	**—**	—
Marketable bonds	**357**	—	**357**	—
Listed in Hong Kong				
Equity securities	**5,030**	447	**5,030**	447
Fund	**46**	92	**46**	92
	15,634	3,234	**11,405**	3,234

Changes in fair values of financial assets at fair value through profit or loss are recorded in other gain/(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 denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong Dollar (HKD)	**8,516**	3,234	**8,516**	3,234
US Dollar (USD)	**6,762**	—	**2,533**	—
Other currencies	**356**	—	**356**	—
	15,634	3,234	**11,405**	3,234

25. Share capital

	2008		2007	
	Number of shares	**US$'000**	Number of shares	US$'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	**2,445,302,351**	**31,516**	2,502,654,351	32,251
Shares repurchased	**—**	**—**	(57,352,000)	(735)
At 31 December	**2,445,302,351**	**31,516**	2,445,302,351	31,516

26. 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.

- During the year, 6,100,000 share options granted on 14 June 2005 with an exercise price of HK$2.695 per share were lapsed on 30 June 2008.

- On 24 July 2008, options to subscribe for 11,000,000 new shares of the Company were granted by the Company to Directors and senior management of the Group at a nominal consideration of HK$1.0 payable by each grantee under the Share Option Scheme. These options are exercisable at the exercise price of HK$0.275 per share commencing from 1 July 2009 to 30 June 2011.

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)					
Grant Date	**Exercise price in HK$ per share**	**Held at 1 January 2008**	**Granted**	**Exercised**	**Cancelled**	**Lapsed**	**Held at 31 December 2008**	**Expiry Date**
14 June 2005	2.695	**6,100**	—	—	—	**(6,100)**	—	30 June 2008
28 June 2006	1.980	**5,500**	—	—	—	—	**5,500**	30 June 2009
7 February 2007	1.430	**1,588**	—	—	—	—	**1,588**	31 March 2011
7 February 2007	1.430	**2,382**	—	—	—	—	**2,382**	31 March 2012
28 June 2007	1.118	**6,300**	—	—	—	—	**6,300**	30 June 2010
24 July 2008	0.275	—	**11,000**	—	—	—	**11,000**	30 June 2011
		21,870	**11,000**	—	—	**(6,100)**	**26,770**	

26. Employee compensation scheme *(continued)*

(a) The Share Option Scheme (continued)

The Company has been using the Black-Scholes Valuation 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	24 July 2008
Number of options granted	11,000,000
Total option value	US$71,000 (HK$547,800)
Share price at date of grant (HK$)	0.275
Exercise price (HK$)	0.275
Expected life of options	2 years
Annualized volatility	51.1%
Risk-free interest rate	2.43%
Dividend payout rate	10.91%

The Black-Scholes Valuation Model is used 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.

(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 conditions 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. With the approval of the Remuneration Committee of the Company, the Trustee executed the instruction to replenish the pool by purchasing 8,632,000 shares at prices ranging from HK$0.55 to HK$0.65 using the cash held by the Trustee in early January 2008. At 31 December 2008, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 20,910,000 while the total number of shares held by the Trustee was 22,507,520 leaving a balance of 1,597,520 shares for future grant to directors and employees in 2009 and beyond.

Shares held by HSBC International Trustee Limited as Trustee under the Share Award Plan are listed below:

	Number of shares
At 1 January 2008	**27,555,520**
Share purchased by the Trustee from market to replenish the pool	**8,632,000**
Shares vested during the year	**(13,680,000)**
At 31 December 2008	**22,507,520**

26. 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:

		Number of share (Units'000)				
	Cumulative Total	**2008**	2007	2006	2005	2004
Granted during the year	**66,940**	**15,670**	13,160	17,650	16,790	3,670
Forfeited in 2005	**(80)**	—	—	—	(80)	—
Forfeited in 2006	**(1,092)**	—	—	(690)	(402)	—
Forfeited in 2007	**(1,590)**	—	(330)	(1,002)	(258)	—
Forfeited in 2008	**(3,252)**	**(1,240)**	(1,610)	(402)	—	—
Forfeited total	**(6,014)**	**(1,240)**	(1,940)	(2,094)	(740)	—
Vested in 2005	**(1,468)**	—	—	—	—	(1,468)
Vested in 2006	**(8,838)**	—	—	—	(6,636)	(2,202)
Vested in 2007	**(16,030)**	—	—	(6,616)	(9,414)	—
Vested in 2008	**(13,680)**	—	(4,740)	(8,940)	—	—
Vested total	**(40,016)**	—	(4,740)	(15,556)	(16,050)	(3,670)
Allocated but not vested	**20,910**	**14,430**	6,480	—	—	—

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

27. Reserves

(a) Group

	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 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	—	(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
At 1 January 2008	**82,809**	**(963)**	**2,082**	**201**	**13,468**	**42,778**	**140,375**
Exchange difference	—	—	—	**445**	—	—	**445**
Dividends paid, net of portion for own shares held	—	—	—	—	—	**(6,286)**	**(6,286)**
Loss for the year	—	—	—	—	—	**(23,408)**	**(23,408)**
Shares purchased for Share Award Scheme (note 26(b))	—	**(671)**	—	—	—	—	**(671)**
Equity compensation	—	**176**	—	—	**1,596**	**(176)**	**1,596**
At 31 December 2008	**82,809**	**(1,458)**	**2,082**	**646**	**15,064**	**12,908**	**112,051**

(b) Company

	Share premium US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
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
At 1 January 2008	**108,423**	**13,468**	**15,059**	**136,950**
Dividends paid	—	—	**(6,286)**	**(6,286)**
Profit for the year	—	—	**3,623**	**3,623**
Equity compensation	—	**1,596**	—	**1,596**
At 31 December 2008	**108,423**	**15,064**	**12,396**	**135,883**

28. Obligations under finance leases – Group

	2008 US$'000	2007 US$'000
Wholly repayable within five years	**9**	19
Current portion	**(6)**	(10)
Non-current portion	**3**	9

At 31 December 2008, the Group's finance lease liabilities were repayable as follows:

	2008 US$'000	2007 US$'000
Within one year	**7**	11
In the second to fifth year	**3**	10
	10	21
Future finance charges on finance leases	**(1)**	(2)
Present value of finance lease liabilities	**9**	19
The present value of finance lease liabilities:		
Within one year	**6**	10
In the second to fifth year	**3**	9
	9	19

29. Deferred tax

Deferred tax is recognized, using liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements using a principal tax rate of 16.5% (2007: 17.5%).

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

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
At 1 January	**221**	827	**39**	83
Credited to the consolidated income statement (note 11)	**(113)**	(606)	**(36)**	(44)
At 31 December	**108**	221	**3**	39

The movement in deferred tax liabilities during the year is as follows:

	Group Accelerated tax depreciation US$'000	**Company Accelerated tax depreciation US$'000**
At 1 January 2007	827	83
Credited to the consolidated income statement	(606)	(44)
At 31 December 2007	221	39
Credited to the consolidated income statement	(113)	(36)
At 31 December 2008	108	3

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US$4,022,000 (2007: US$927,000) in respect of losses amounting to US$24,376,000 (2007: US$5,297,000) that are available indefinitely for offsetting against future taxable profit.

30. Trade and other payables – Group

	2008 US$'000	2007 US$'000
Trade payables	**7,553**	19,708
Accrued expenses and other payables	**8,605**	6,846
	16,158	26,554
Other payables - non-current portion	**(265)**	—
	15,893	26,554

At 31 December 2008, the ageing analysis of trade payables is as follows:

	2008 US$'000	2007 US$'000
Current	**5,010**	14,708
1 - 30 days	**2,387**	4,709
31 - 60 days	**146**	193
61 - 90 days	**7**	23
Over 90 days	**3**	75
	7,553	19,708

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

	2008 US$'000	2007 US$'000
US Dollar (USD)	**11,471**	23,312
Hong Kong Dollar (HKD)	**1,683**	1,499
Japanese Yen (JPY)	**1,002**	1,007
Other currencies	**2,002**	736
	16,158	26,554

31. Derivative financial instruments

	Group and Company	
	2008 Liabilities US$'000	2007 Liabilities US$'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.

32. Banking facilities – Group

At 31 December 2008, the banking facilitates of the Group amounted to US$17,591,000 (2007: US$16,232,000).

33. Cash generated from operations – Group

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

	2008 US$'000	2007 US$'000
(Loss)/profit before taxation	**(23,681)**	12,941
Depreciation of property, plant and equipment (note 17)	**5,299**	6,236
Share of results of associated companies (note 18)	**432**	754
Finance costs	**1**	1
Equity compensation	**1,596**	4,166
Provision for impairment loss of available-for-sale financial assets	**2,151**	—
Provision for impairment loss of investments in associated companies	**1,555**	—
Provision for impairment loss of goodwill	**931**	—
Loss on disposal of property, plant and equipment (note 33(b))	**1**	99
Fair value changes in financial assets at fair value through profit or loss	**5,116**	227
Interest income	**(4,603)**	(7,963)
Operating (loss)/profit before working capital changes	**(11,202)**	16,461
Decrease in trade and other receivables	**16,711**	33,967
Decrease in inventories	**8,553**	3,291
Decrease in trade and other payables	**(10,396)**	(13,862)
Cash generated from operations	**3,666**	39,857

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

	2008 US$'000	2007 US$'000
Net book amount (note 17)	**5**	99
Loss on disposal of property, plant and equipment (note 8)	**(1)**	(99)
Proceeds from disposal of property, plant and equipment	**4**	—

34. Commitments – Group

(a) Capital commitments

Capital expenditure committed at the balance sheet date but not yet contracted for and incurred is as follows:

	2008 US$'000	2007 US$'000
Approved but not contracted for(i)	**688**	—
Contracted but not provided for	**—**	160

(i) In late November 2008, a proposal to invest in a PRC limited liabilities company ("BJ-LED") by injecting CNY4,700,000 (approximately US$688,000) to transfer the BJ-LED to a Sino-foreign joint venture limited liabilities company ("BJ-LED-JV") for a 47% ownership was approved by the Investment Committee. Subject to PRC government approval, the cash outlay is expected to be within 1H of 2009.

(b) Operating lease commitments – the Group as lessee

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

	2008 US$'000	2007 US$'000
No later than 1 year	**782**	1,172
Later than 1 year and not later than 5 years	**530**	770
Later than 5 years	**161**	224
	1,473	2,166

35. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 25 March 2009.

FIVE-YEAR FINANCIAL SUMMARY

US$ million	2008	2007	2006	2005	Restated[iv] 2004
Sales	**92.8**	165.0	254.1	394.1	308.2
Gross profit	**16.9**	39.5	59.3	119.6	96.6
Net (loss)/profit	**(23.4)**	10.2	22.4	76.3	57.9
Assets and liabilities					
Total assets	**162.3**	202.4	221.1	270.3	250.1
Total liabilities	**(18.5)**	(30.3)	(41.2)	(63.3)	(73.4)
Shareholders' funds	**143.8**	172.1	179.9	207.0	176.8
(Loss)/earnings per share					
US cents					
Basic [i]	**(0.97)**	0.42	0.91	3.12	2.63
Diluted [ii]	**(0.96)**	0.41	0.90	3.08	2.50
Dividends per share	**0.39**	0.39	0.77	2.44	1.88[iii]
Net asset per share [i]	**5.95**	7.02	7.29	8.47	8.02

(i) The basic (loss)/earnings and net assets per share are based on the weighted average of 2,204,501,037, 2,445,135,773, 2,467,035,647, 2,453,274,184 and 2,416,930,170 ordinary shares in issue during each of the years ended 31 December 2004, 2005, 2006, 2007 and 2008, 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) For 2004, 2005, 2006, 2007 and 2008, the diluted (loss)/earnings per share information is based on 2,320,846,751, 2,473,217,108, 2,491,931,274 , 2,476,967,789 and 2,437,669,973 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	11 September 2008
Annual Results Announced	25 March 2009
Closure of Register of Members	7 – 13 May 2009
Annual General Meeting	13 May 2009
Proposed Final Dividend Pay Date	20 May 2009

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 2008)

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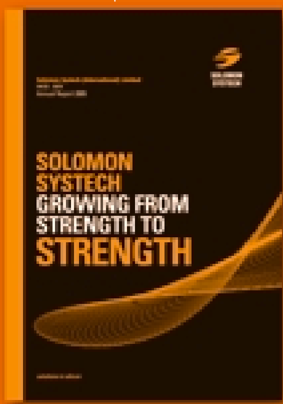

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2007 International ARC Awards
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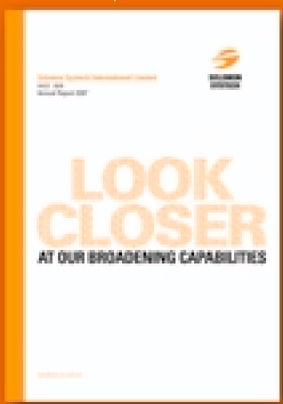

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