
IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.



**SOLOMON
SYSTECH**
晶門科技

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(a company incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 603,582,000 Shares (subject to the Over-allotment Option)
Number of Public Offering Shares : 66,396,000 Shares (subject to adjustment)
Offer Price : not more than HK\$2.05 per Offer Share, plus 1% brokerage, a SFC transaction levy of 0.005%, an investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005%, subject to refund
Nominal value : HK\$0.10 each
Stock code : 2878

Global Coordinator, Sponsor and Sole Bookrunner



The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 31 March 2004 and, in any event, not later than Tuesday, 6 April 2004. The Offer Price will be announced in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable after it is fixed. The Offer Price will be not more than HK\$2.05 and is currently expected to be not less than HK\$1.60. Applicants for Public Offering Shares are required to pay, on application, the maximum offer price of HK\$2.05 for each Share, together with brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price should be lower than HK\$2.05.

The Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the indicative offer price range below that stated in this prospectus (which is HK\$1.60 to HK\$2.05 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offering. In such a case, notices of the reduction in the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offering. If applications for Public Offering Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offering, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Public Offering Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed by 6 April 2004 between us and the Global Coordinator (on behalf of the Underwriters), the Global Offering (including the Public Offering) will not proceed and will lapse.

The obligations of the Public Offering Underwriters under the Public Offering Underwriting Agreement to subscribe, and to procure applicants for the subscription for, the Public Offering Shares, are subject to termination by the Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 am on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

25 March 2004

EXPECTED TIMETABLE

Expected Price Determination Date ⁽²⁾	Wednesday, 31 March 2004
Latest time to lodge pink Application Forms	Monday, 12:00 noon on 29 March 2004
Latest time to lodge yellow and white Application Forms	Tuesday, 12:00 noon on 30 March 2004
Latest time to give electronic application instructions to HKSCC ⁽³⁾	Tuesday, 12:00 noon on 30 March 2004
Application lists open ⁽⁴⁾	Tuesday, 11:45 a.m. on 30 March 2004
Application lists close	Tuesday, 12:00 noon on 30 March 2004
Announcement of the Offer Price, the level of indication of interest in the International Placing, the results of applications and the basis of allotment of the Public Offering Shares under the Public Offering to be published in the South China Morning Post and the Hong Kong Economic Times on or before	Wednesday, 7 April 2004
Despatch of Share certificates in respect of wholly or partially successful applications on or before ^{(5),(6)}	Wednesday 7 April 2004
Despatch of refund cheques in respect of wholly or partially unsuccessful applications on or before	Wednesday, 7 April 2004
Dealings in Shares on the Stock Exchange to commence on	Thursday, 8 April 2004

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.
- (2) Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Wednesday, 31 March 2004. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$2.05 per Share payable by applicants for Shares under the Public Offering, applicants who apply for Shares must pay on application the maximum offer price of HK\$2.05 per Share plus the brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed "How to Apply for Public Offering Shares."
- (3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offering Shares — Applying by Giving Electronic Application Instructions to HKSCC" in this prospectus.
- (4) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12 noon on Tuesday, 30 March 2004, the application lists will not open on that day. Further information is set out in the section headed "How to Apply for Public Offering Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.
- (5) Applicants who apply for 1,000,000 or more Public Offering Shares and have indicated in their Application Forms their wish to collect refund cheques and, where applicable, Share certificates in person may do so from our Share registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 April 2004 or any other date notified by us in the newspaper as the date of dispatch of Share certificates and refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the section headed "How to Apply for Public Offering Shares."
- (6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Share payable on application.

Share certificates will only become valid certificates of title provided that the Public Offering has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at around 8.00 a.m. on 8 April 2004.

CONTENTS

You should rely only on the information contained in this prospectus and the application forms to make your investment decision.

We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Global Coordinator, the Sponsor, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

The contents of the Company's website at www.solomon-systech.com do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed "Risk Factors." You should read that section carefully before you decide to invest in our Shares.

OVERVIEW

We are an independent fabless semiconductor company specialising in the design, development and sale of proprietary IC solutions that enable sophisticated display applications such as cellular phones and handheld displays. In terms of volume, we believe we are currently one of the leading independent display IC producers for cellular phones. We shipped more than 70 million display ICs in 2003, of which more than 95% were display ICs developed for use in cellular phones. According to IDC's estimate in November 2003, the projected 2003 global shipments of cellular phones was estimated to be approximately 470 million handsets.

Our products are used by leading cellular phone brand owners such as Motorola and Sony Ericsson and display module makers such as ALPS Electric Co., Ltd. and RiTDisplay Corporation. Our display IC products are also critical components of consumer electronic products such as MP3 players and handhelds. Although we provide products for different display technologies, we focus on higher value-added sectors such as colour screen and multifunctional single chip solutions. We currently have in production driver/controller ICs for cellular phone and other mobile device applications using STN, colour STN and OLED technologies, and brand owners and display module makers are currently evaluating our line of TFT display ICs for cellular phones. We are developing display IC products for large panel TFT-LCD display applications such as notebook displays, desktop monitors and flat screen televisions, which we intend to launch during 2004, and are also developing IC products for display technologies which are in initial stages of commercial applications, such as microdisplays and E-paper.

We have strategic collaborations with brand owners to co-develop products in order to deliver advanced display IC solutions, and as an independent display IC producer we are able to leverage this experience to create advanced products for other brand owners. Our manufacturing process is outsourced to specialist semiconductor contract manufacturers, namely wafer foundries and packaging and testing factories, with our own engineers developing manufacturing procedures and testing software and hardware to ensure product quality and to control the use of our intellectual properties. To further focus our efforts on developing market-driven and advanced technology products, we appoint regional and global distributors to undertake activities such as market coverage, credit financing and logistics.

Our headquarters are in Hong Kong and we have regional offices in the PRC, Singapore, Taiwan and the United States, with authorised representatives and distributors in Europe, Japan, Korea, the PRC, Southeast Asia and Taiwan.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths are key to our strong track record and will be the springboard for our future growth.

- We are strong in research and development with proven technological knowhow and a portfolio of core IP in display IC technologies.
- We have a comprehensive portfolio of products.
- We work closely with global industry leaders in co-developing next generation products.
- We have expertise in managing the supply chain.
- We have developed a strong global sales and distribution channel.
- We have a team of experienced senior management and professionals.

SUMMARY

OUR STRATEGY

Through leveraging our competitive advantages and implementing the following strategies, we aim to maintain and strengthen our position as a leading display IC producer in the world. Specifically, we intend to continue with the implementation of the following initiatives to enhance our growth.

- Strengthening relationships with brand owners and display module makers and leveraging on these relationships to expand our customer base.
- Expanding our product portfolio to provide a broad range of display IC solutions.
- Maintaining our focus on integrated solutions.
- Building redundancy into our supply chain.
- Investing in capacity.
- Attracting, retaining and developing quality employees.

RISK FACTORS

There are certain risks involved in our operations. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to the industry; and (iii) risks relating to the Global Offering.

Risks relating to our business

- We have a limited operating history upon which to evaluate us and our product portfolio.
- We are a “fabless” IC producer and do not have long term contracts with our contract manufacturers.
- Our contract manufacturers may not keep up with capacity requirements.
- We depend on one wafer fab supplier for a significant portion of wafers.
- We depend on a few brand owners for a significant portion of our revenues.
- We do not have long term purchase commitments from our customers which may result in fluctuations in our results of operations and may affect our liquidity.
- We may not manage the supply-demand cycle effectively.
- We may face significant risks in expanding our product offerings to cover new markets and technologies.
- We may not be able to keep up with our competitors.
- We are highly dependent on certain key employees.
- Our business may suffer if we are unable to recruit skilled and talented employees.
- We rely to a large extent on our intellectual property, and failure to protect such property may affect our ability to compete.
- We may not be able to manage our rapid growth in an efficient manner.
- Issuance of shares under the Share Award Plan to employees will have dilution effect and may affect our profitability.
- Fluctuations in exchange rates could adversely affect our business.
- We cannot predict the effect of another outbreak of SARS or other serious contagious diseases.

Risks relating to the industry

- The uptake of display ICs is dependent on the performance of the industries in which they are employed, which is subject to factors beyond the control of any display IC manufacturer.
- The price of ICs decline over its life cycle due to technology advances and we may not be able to respond to rapid technological changes.
- Display IC producers typically have a lengthy and expensive sales cycle.
- The market for display ICs is subject to factors, such as industry standards, over which we have no control.

SUMMARY

- The manufacturing of ICs is subject to the availability of raw materials over which we have no control.
- Many of our IC customers and contract manufacturers are vulnerable to natural or man-made disasters and other events outside of our control.
- We face substantial political risks associated with doing business in Taiwan and South Korea.

Risks relating to the Shares

- An active trading market for our Shares may not develop, and their trading prices may fluctuate significantly.
- Purchasers of our Shares in the Global Offering will experience immediate dilution and purchasers of our Shares may experience further dilution if we issue additional Shares in the future.
- Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of the Shares.
- Certain press articles have been circulating in the Hong Kong media which may not be accurate.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables present our summary financial information. The summary balance sheet data as of 31 December 2001, 2002 and 2003, the summary income statement data and other financial data included in the following tables for the years ended 31 December 2001, 2002 and 2003, are derived from, and should be read in conjunction with, our audited financial statements included in the Accountants' Report in Appendix I to this prospectus. Our financial statements have been prepared in accordance with HK GAAP.

This financial information presents our results of operations as if we had been in existence throughout the three-year period ended 31 December 2003 and as if our operations and business were transferred to us as of 1 January 2001 and were conducted by us throughout the three-year period ended 31 December 2003. Under the Reorganisation, the Company acquired the entire issued share capital of Solomon Systech Limited, which contains all of the commercial operations of the Group.

Income Statement Data

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Turnover	37,511	60,022	109,339
Cost of sales	(25,236)	(39,135)	(63,294)
Gross profit	12,275	20,887	46,045
Other revenues	384	98	67
Research and development costs	(5,016)	(6,543)	(7,743)
Selling and distribution expenses	(813)	(855)	(994)
Administrative expenses	(3,907)	(4,440)	(9,510)
Other operating income/(expenses)	258	(909)	(142)
Operating profit	3,181	8,238	27,723
Finance costs	(32)	(2)	(2)
Profit before taxation	3,149	8,236	27,721
Taxation	(496)	(1,458)	(5,036)
Profit for the year	2,653	6,778	22,685
Dividend	—	6,122	—
Basis earnings per share (US cents)	0.13	0.33	1.09

SUMMARY

Balance Sheet Data

	Group			Company
	As at 31 December			As at 31 December
	2001	2002	2003	2003
	US\$'000	US\$'000	US\$'000	US\$'000
Non-current assets				
Fixed assets	1,143	1,465	5,490	—
Patents and intellectual property.....	2,475	1,575	675	—
Investment in subsidiaries.....	—	—	—	49,916
Goodwill	275	175	291	—
Investment securities.....	848	—	—	—
	4,741	3,215	6,456	49,916
Current assets				
Inventories.....	3,221	4,973	13,083	—
Accounts and bills receivables.....	3,012	14,535	20,860	—
Prepayments, deposits and other receivables.....	3,364	521	848	—
Due from related companies.....	5,759	103	—	—
Due from a subsidiary.....	—	—	—	18,408
Pledged bank deposits.....	2,674	2,681	3,183	—
Bank balances and cash	9,315	22,467	37,173	—
	27,345	45,280	75,147	18,408
Current liabilities				
Accounts payable.....	3,339	10,563	18,476	—
Bills payable	—	889	1,505	—
Accrued charges and other payables.....	706	2,189	7,620	—
Due to related companies.....	91	—	—	—
Tax payable	838	964	3,494	—
Bank overdrafts, secured.....	1	—	—	—
Obligations under finance leases.....	5	5	4	—
	4,980	14,610	31,099	—
Net current assets	22,365	30,670	44,048	18,408
Total assets less current liabilities	27,106	33,885	50,504	68,324
Non-current liabilities				
Obligations under finance leases.....	10	5	1	—
Deferred taxation	520	526	587	—
	530	531	588	—
	26,576	33,354	49,916	68,324
Financed by:				
Capital and reserves				
Share capital	21,268	23,622	24,302	24,302
Reserves	5,308	9,732	25,614	44,022
Shareholders' funds	26,576	33,354	49,916	68,324

SUMMARY

Cash Flow Data

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Operating activities			
Net cash inflow generated from operations	1,073	15,415	29,106
Hong Kong profits tax paid	(150)	(1,327)	(2,445)
Interest paid	(30)	—	—
Interest element of finance lease rental payments.....	(2)	(2)	(2)
Net cash inflow from operating activities	<u>891</u>	<u>14,086</u>	<u>26,659</u>
Investing activities			
Purchase of fixed assets.....	(534)	(1,018)	(4,942)
Sale of fixed assets	2	—	34
Acquisition of subsidiaries, net of cash acquired	—	—	44
Disposal of a subsidiary, net of cash disposed	311	—	—
Purchase of investment securities	(848)	—	—
Interest received	318	97	67
Net cash outflow from investing activities	<u>(751)</u>	<u>(921)</u>	<u>(4,797)</u>
Financing activities			
Issuance of share capital in SSL	4,252	—	—
Payment of capital element of finance leases	(5)	(5)	(5)
Increase in pledged bank deposits.....	(44)	(7)	(502)
Repayment of loan from the then shareholders of SSSZ	—	—	(526)
Dividend paid.....	—	—	(6,122)
Net cash inflow/(outflow) from financing activities	<u>4,203</u>	<u>(12)</u>	<u>(7,155)</u>
Increase in cash and cash equivalents	4,343	13,153	14,707
Cash and cash equivalents at 1 January	4,970	9,314	22,467
Effect of foreign exchange rate changes	1	—	(1)
Cash and cash equivalents at 31 December.....	<u>9,314</u>	<u>22,467</u>	<u>37,173</u>
Analysis of balance of cash and cash equivalents:			
Bank balance and cash	9,315	22,467	37,173
Bank overdrafts	(1)	—	—
	<u>9,314</u>	<u>22,467</u>	<u>37,173</u>

SUMMARY

OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$1.60	Based on an Offer Price of HK\$2.05
Market capitalisation of the Shares ⁽²⁾	HK\$3,862.9 million	HK\$4,949.4 million
Price/earnings multiple		
(a) pro forma fully diluted ⁽³⁾	21.8 times	28.0 times
(b) weighted average ⁽⁴⁾	18.8 times	24.1 times
Adjusted net tangible asset value per Share ⁽⁵⁾	HK\$0.32	HK\$0.38

- (1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 2,414,318,351 Shares expected to be in issue following the Global Offering.
- (3) The calculation of the price/earnings multiple on a pro forma fully diluted basis is based on the 2003 earnings and 2,414,318,351 Shares in issue and to be issued as mentioned herein on a pro forma fully diluted basis at the respective Offer Prices of HK\$1.60 and HK\$2.05 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company under the Share Award Plan as described in Appendix IV to this prospectus.
- (4) The calculation of the price/earnings multiple on a weighted average basis is based on the 2003 earnings per Share on a weighted average basis at the respective Offer Prices of HK\$1.60 and HK\$2.05.
- (5) The adjusted net tangible asset value per Share is based on 2,414,318,351 Shares expected to be in issue following the Global Offering.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.60 and HK\$2.05, respectively, the adjusted net tangible asset value per Share will be HK\$0.36 per Share and HK\$0.44 per Share, respectively.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$589 million, after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming an Offer Price of HK\$1.825 per Share, being the midpoint of the stated offer price range. We intend to use these net proceeds for the following purposes.

- Product research and development.
- Investment in securing capacity.
- Operational infrastructure for expansion.
- Working capital and other general corporate purposes.

See "Future Plans and Use of Proceeds — Use of Proceeds."

DIVIDEND POLICY

Our Board of Directors may declare dividends after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment and the amount of dividends will be subject to the constitution of the Company and the Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board of Directors.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in "Glossary."

"Application Form(s)"	white, pink, and yellow application form(s), or where the context so requires, any of them
"Articles of Association" or "Articles"	the articles of association of the Company, conditionally approved and adopted on 25 February 2004 and as amended from time to time
"Board of Directors" or "Board"	the board of directors of our Company
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"Company," "our Company," "we" and "us"	Solomon Systech (International) Limited, a limited company incorporated in the Cayman Islands with limited liability on 21 November 2003 under the Companies Law, or where the context refers to any time prior to its incorporation, those businesses and operations which its predecessors were engaged in and which were subsequently assumed by it pursuant to the Reorganisation in contemplation of the Global Offering
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"controlling shareholder"	has the meaning ascribed thereto in the Stock Exchange Listing Rules, and "controlling interest" shall be construed accordingly
"creditors' turnover days"	accounts payable divided by turnover and multiplied by 365 days

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“debtors’ turnover days”	the aggregate of accounts and bills receivables and trade related receivables included in due from related companies, divided by turnover and multiplied by 365 days
“Director(s)”	the directors of our Company
“DisplaySearch”	a research firm which specialises in the provision of industry research reports that cover all aspects of the flat panel display industry
“Fiscal 2001”, “Fiscal 2002” or “Fiscal 2003”	the financial year ended 31 December of the relevant year
“Gartner Dataquest”	a research firm which is part of Gartner Inc., a research and advisory firm whose businesses consist of research, consulting, measurement, events and executive programs
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“Global Coordinator”	JPMorgan
“Global Offering”	the Public Offering and the International Placing
“Group” and “our Group”	the Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK GAAP”	accounting principles generally accepted in Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“IDC”	International Data Corp., a global market intelligence and advisory firm for the information technology and telecommunications industries, which analyzes and predicts technology trends and which is a subsidiary of International Data Group, a technology media, research, and events company
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares, as further described in “Structure and Conditions of the Global Offering”

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“International Placing Shares”	the 537,186,000 Shares (subject to adjustment) offered for subscription by the Company and offered for sale by the Selling Shareholders under the International Placing
“International Underwriters”	the group of underwriters of the International Placing, led by JPMorgan and expected to enter into the International Underwriting Agreement to underwrite the International Placing
“International Underwriting Agreement”	the purchase agreement relating to the International Placing and to be entered into among us, the International Underwriters and the Global Coordinator on or around 31 March 2004
“Inventories’ turnover days”	inventories divided by turnover and multiplied by 365 days
“JPMorgan”	J.P. Morgan Securities (Asia Pacific) Limited, which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Latest Practicable Date”	29 February 2004
“Listing”	the listing of, and dealings in, the Shares on the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange
“Memorandum of Association”	the memorandum of association of the Company, conditionally approved and adopted on 25 February 2004 and as amended from time to time
“NT\$” or “N.T. dollars”	New Taiwan dollars, the lawful currency of Taiwan
“Offer Price”	the final HK dollar price per Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) at which the Shares are to be subscribed for and issued pursuant to the Public Offering, to be determined as further described in “Structure and Conditions of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Public Offering Shares and the International Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to the International Underwriters, exercisable by the Global Coordinator on behalf of the International Underwriters, within 30 days from the last day for the lodging of applications under the Public Offering, to require us to allot and issue up to an aggregate of 90,536,000 additional new Shares, representing in aggregate approximately 15% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Placing

DEFINITIONS

“PRC” or “China”	the People’s Republic of China. Except where the context requires, references in this prospectus to the PRC or China do not apply to the Hong Kong and Macau Special Administrative Regions or to Taiwan
“Pre-IPO Loyalty Plan”	the employee incentive plan adopted by the Company pursuant to a resolution passed by the Shareholders on 25 February 2004 and a resolution of the Board on 19 March 2004 (see the section headed “Pre-IPO Schemes — Pre-IPO Loyalty Plan” in Appendix IV to this prospectus for details), under which awards have been made and no further awards will be made
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally adopted by the Company pursuant to a resolution passed by the shareholders of the Company at an extraordinary general meeting held on 25 February 2004 and a resolution of the Board on 19 March 2004, a summary of the principal terms of which is set out in the section headed “Pre-IPO Schemes — Pre-IPO Share Option Scheme” in Appendix IV to this prospectus, under which options have been offered and no further options will be offered
“Pre-IPO Share Purchase Scheme”	the share purchase scheme adopted by Solomon Systech Limited, the details of which are referred to in the section headed “Pre-IPO Schemes — Pre-IPO Share Purchase Scheme” in Appendix IV to this prospectus, under which awards have been made and no further awards will be made
“Pre-IPO Stock Reward Scheme”	the employee share reward plan adopted by Solomon Systech Limited and the pre-IPO share reward plan adopted by the Company after the Reorganisation in place of the aforesaid employee share reward plan of Solomon Systech Limited, the awards made under both of which have been funded from the retained earnings or profits of the relevant members of the Group (see the section headed “Pre-IPO Schemes — Pre-IPO Stock Reward Scheme” in Appendix IV to this prospectus for details), under which awards have been made and offered, respectively and no further awards will be made and offered, respectively
“Price Determination Date”	the date, expected to be on or around 31 March 2004 but no later than 6 April 2004, on which the Offer Price is fixed for the purposes of the Global Offering
“Public Offering”	the offer of Public Offering Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offering Shares”	the 66,396,000 new Shares (subject to adjustment) being offered by us for subscription pursuant to the Public Offering

DEFINITIONS

“Public Offering Underwriters”	the underwriters of the Public Offering listed in “Underwriting — Public Offering Underwriters”
“Public Offering Underwriting Agreement”	the underwriting agreement dated 24 March 2004 relating to the Public Offering entered into among us, the Public Offering Underwriters and the Global Coordinator
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Quanta Computer”	Quanta Computer Inc., a company established in Taiwan and with its shares listed on the Taiwan Stock Exchange Corporation
“Quanta Display”	Quanta Display Inc., a company established in Taiwan and with its shares listed on the Taiwan Stock Exchange Corporation
“Quanta Group”	Quanta Computer and its subsidiaries, including Quanta Display
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the reorganisation relating to our business which took effect on 23 December 2003 and is more particularly described in the section headed “The Reorganisation” in Appendix IV to this prospectus
“Rule 144A”	Rule 144A under the US Securities Act
“Sale Shares”	the 264,116,360 Shares to be sold by the Selling Shareholders under the International Placing
“Selling Shareholders”	Extreme Performance Limited, Taiwan Special Opportunities Fund II, A&D Capital Corp., CAM-CID Asia Pacific Investment Corp., China Century Venture Capital Co., Ltd., China International Investment Co., Ltd., China Power Venture Capital Co., Ltd., Global Vision Venture Capital Co., Ltd., J&D Capital Corp., Nien Hsing International Investment Co., Wintek Technology (Cayman) Corporation, Wintek (B.V.I.) Corporation, Picvue Electronics, Limited, Leung Kwong Wai, Huang Hsing-Hua, Lo Wai Ming, Lai Woon Shing, senior management, other employees and others as more fully set out in the section headed “Particulars of the Selling Shareholders” in Appendix IV to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Award Plan”	the employee incentive plan adopted by the Company pursuant to a resolution of the Shareholders on 25 February 2004 and a resolution of the Board on 19 March 2004 (see the section headed “Continuing Schemes — Share Award Plan” in Appendix IV to this prospectus for details)
“Shareholders”	holders of Shares

DEFINITIONS

“Shares”	ordinary shares issued by the Company, with a nominal value of HK\$0.10 each, traded in HK dollars and for which applications have been made for the granting of listing, and permission to deal, on the Stock Exchange
“Share Option Scheme”	the share option scheme conditionally adopted by the Company pursuant to a resolution passed by the Shareholders passed on 25 February 2004 and adopted by a resolution of the Board on 19 March 2004, a summary of the principal terms of which is set out in the section headed “Continuing Schemes — Share Option Scheme” in Appendix IV to this prospectus
“Sponsor”	JPMorgan, being the sponsor of the Public Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Exchange Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Substantial Shareholder”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings
“Track Record Period”	the three years ended 31 December 2003
“Trustee” or “Custodian”	HSBC International Trustee Limited, being the custodian for the Pre-IPO Loyalty Plan and the trustee for both the Share Award Plan and the pre-IPO share reward plan (being part of the Pre-IPO Stock Reward Scheme) adopted by the Company
“Underwriters”	the Public Offering Underwriters and the International Underwriters
“Underwriting Agreements”	the Public Offering Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America, including its territories and possessions
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“US Securities Act”	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

GLOSSARY OF TECHNICAL TERMS

"3G"	the acronym for third-generation wireless, referring to near-future developments in personal and business wireless technology, especially mobile communications, with capabilities and features such as enhanced multimedia (voice, data, video, and remote control), broad bandwidth and high speed (upwards of 2 megabits/second)
"CMOS"	the acronym for complementary metal-oxide semiconductor, the semiconductor technology used in the transistors that are manufactured into most of today's computer microchips
"CPU"	the acronym for central processing unit, the computational and control unit of a computer, responsible for interpreting and executing instructions
"Cross-talk"	interference among electronic signals which, in electronic displays, can lead to degraded image quality
"CRT"	the acronym for cathode ray tube, a specialised vacuum tube in which images are produced when an electron beam strikes a phosphorescent surface
"Enterprise Resources Planning System"	a business system to handle business transactions of distribution, manufacturing, finance, inventory management and customers orders
"E-paper"	the trade name of a display technology known as electrophoretic display, which involves the printing of display circuitry on a very thin display medium such as a plastic sheet
"GPRS"	the acronym for general packet radio services, a packet-based wireless communication service that offers data rates from 56 up to 114 kilobits/second and continuous connection to the internet for mobile users
"HV-SOC"	the acronym for high voltage system-on-chip, an IC with embedded high voltage drivers and high density circuits
"IC"	the acronym for integrated circuit, a microelectronic semiconductor device consisting of many interconnected transistors and other components built onto a single piece of substrate and enclosed in a small package
"IP"	the acronym for intellectual property
"LCD"	the acronym for liquid crystal display, a technology used for flat panel displays
"LCOS"	the acronym for liquid crystal on silicon, a display technology which is a combination of traditional liquid crystal display and semiconductor fabrication technologies

GLOSSARY OF TECHNICAL TERMS

"LVDS"	the acronym for Low Voltage Differential Signaling, a process allowing for high-speed (up to gigabits per second) data transmission with low noise and low power characteristics
"LTPS"	the acronym for low temperature poly-silicon, an advanced process technology by which displays may be made higher resolution and brighter than TFT-LCD displays
"Mask"	a transparent (glass or quartz) plate covered with an array of patterns used in making integrated circuits. Each pattern consists of opaque and transparent areas that define the size and shape of all circuit and device elements. The mask is used to expose selected areas of photoresist, which defines areas to be etched
"MP3"	the acronym for MPEG-1 Audio Layer-3, a standard technology and format for compressing a sound sequence into a very small file (about one-twelfth the size of the original file) while preserving the original level of sound quality when it is played
"MPEG"	the acronym for the Moving Picture Experts Group, which develops standards for digital video and digital audio compression
"Multi-chips solutions"	solutions requiring more than one IC chip
"Near-to-eye"	a display application which involves the use of electronic displays situated close to the naked eye, such as viewfinders
"OLED"	the acronym for organic light-emitting diode, an electronic device made by placing a series of organic thin films between two conductors. When electrical current is applied, a bright light is emitted through a process called electrophosphorescence
"Packaging"	the protective container or housing for an electronic component or die, with external terminals to provide electrical access to the components inside. Packages provide for power and signal distribution, power dissipation, and physical and chemical protection of the circuits
"PC"	the acronym for personal computer
"RSDS"	the acronym for Reduced Swing Differential Signaling, a process allowing for high-speed data transmission, with low noise and low power characteristics, used in TFT-LCD panels to minimise power consumption and component counts
"SOC"	the acronym for system-on-chip, the integration of many technological features onto a single chip
"STN"	the acronym for super twisted nematic, a technique which allows LCD manufacturers to produce displays with a higher contrast as the size of the display increases

GLOSSARY OF TECHNICAL TERMS

"TAB"	the acronym for Tape Automated Bonding, a high pin count flexible packaging format for integrated circuits
"TFT"	the acronym for thin film transistor, an LCD technology that has a transistor for each pixel (i.e. each of the tiny elements that control the illumination of a display), enabling the current that triggers the pixel illumination to be smaller and therefore to be switched on and off more quickly
"VLSI"	the acronym for very large scale integration, the current level of computer microchip miniaturisation and refers to a process by which microchips are made to contain hundreds of thousands to one million of transistors
"Wafer"	a thin slice, sawed from a cylindrical ingot of bulk semiconductor material (usually silicon), four to twelve inches in diameter, used to manufacture integrated circuits or discrete devices
"Wafer foundries"	wafer production and processing plants available on a contract basis to companies that do not have wafer fabrication capabilities of their own, or that wish to supplement their own capabilities
"WAP"	the acronym for wireless application protocol, a specification for a set of communication protocols to standardise the way that wireless devices, such as cellular telephones and radio transceivers, can be used for internet access, including e-mail, the world wide web, newsgroups, and internet relay chat

RISK FACTORS

Prospective applicants for the Offer Shares should consider carefully all of the information set out in this prospectus and, in particular, the following risk factors in connection with an investment in the Company. Our business, results of operations or financial condition could be materially adversely affected by any of the risks and uncertainties described below. The trading price of our Shares could decline due to any of these risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We have a limited operating history upon which to evaluate us and our product portfolio

We commenced operations as an independent entity in 1999 and the Company was incorporated as our holding company in November 2003 in preparation for the Global Offering. We have grown rapidly in recent years and our future products may differ in significant ways from our past and current products. There is no assurance that we will be able to launch individual products, or our business as a whole, successfully as we continue to grow and expand. Our limited operating history and the evolving nature of our business make predicting our future results of operations difficult. Our revenues may not grow at the rate that we anticipate, at their current levels or historical levels, or be sustained at their current levels.

We are a “fabless” IC producer and do not have long term contracts with our contract manufacturers

We are what is known in the IC industry as a “fabless” IC producer. We design, develop and sell display ICs manufactured by our contract manufacturers using our standards and processes. We do not have our own wafer manufacturing or packaging and testing facilities and rely on contract manufacturers to manufacture the products we design. We currently do not have long-term contracts with these contract manufacturers. This means that they are not obliged to allocate capacity to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. We have not secured any contractual undertakings that adequate capacity will be available to us to meet future demand for our products. These contract manufacturers may allocate capacity to the production of other companies’ products at the expense of reducing the capacity available to us. In particular, foundry customers which are larger and better financed (which may include our competitors) or those companies who have long-term agreements with these foundries, may cause these foundries to reallocate capacity to them, decreasing the capacity available to us. Accordingly in the event of an unexpected or large increase in demand for our products, we may not be able to secure sufficient capacity from contract manufacturers.

Our contract manufacturers may not keep up with capacity requirements

Based on its historical financial performance, the Group expects that there will be further shipment growth and has identified capacity limitation (since the Group does not own any of its own manufacturing facilities) as one of the main inhibitors of increasing shipments. A new fab plant for semiconductor wafers requires considerable capital expenditure and construction time. As a result, creating new fab capacity requires a commitment of sufficient resources and a long lead time. As our business expands, our contract manufacturers may not be capable of meeting our customers’ demands as they may not have capital resources to invest in additional production capacity or they may not have allotted sufficient lead time in commencing construction of additional facilities. In addition, according to publicly available information, one of our wafer fab suppliers, Hynix Semiconductor Inc., is currently undergoing debt rescheduling. We cannot be certain that such debt rescheduling will not affect its ability to invest in additional capacity. If we are unable to secure new fab capacity from alternative sources during periods of increased demand, our revenue growth may be affected.

RISK FACTORS

We depend on one wafer fab supplier for a significant portion of wafers

Currently, United Microelectronics Corporation is our largest supplier of wafers, accounting for more than 50% of all our wafer purchases in each of the last three years ended 2003. If this capacity from United Microelectronics Corporation were to be reduced or cease altogether, the Group would be affected due to the need to qualify alternative foundries to produce our display ICs formerly produced by United Microelectronics Corporation. If we do not find alternative sources of wafer suppliers to replace such lost or reduced capacity, our revenue growth may be affected.

We depend on a few brand owners for a significant portion of our revenues

Currently, more than 95% of our products are ultimately developed for use in cellular phones of a few brand owners such as Motorola and Sony Ericsson. If any of these brand owners cease to use our products in their cellular phones, our financial condition and results of operations may be adversely affected. In addition, if we lose a brand owner or display module maker as an end user for a particular product, we may not be able to replace such end user with another or even if we are able to find a replacement end user, such replacement end user may not take up all of the lost volume. While we are continually seeking to diversify our brand owner base (i.e. different brand names within the same product industry) as well as our end product base (i.e. different product industries), we cannot assure you that revenue generated from our diversification efforts will, individually or in the aggregate, reach or exceed historical levels in any future period.

We do not have long term purchase commitments from our customers which may result in fluctuations in our results of operations and may affect our liquidity

Our customers do not have long-term purchase commitments towards us and our sales are made on the basis of individual purchase orders. Our customers may also cancel or defer purchase orders. Our customers' purchase orders may vary significantly from period to period, and it is difficult to forecast future order quantities. As a result, we do not typically operate with any significant backlog. The lack of significant backlog makes it difficult for us to forecast our revenues, plan our production and allocate resources for future periods. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in prior periods. We also cannot assure you that the volume of our customers' orders will be consistent with our expectations when we plan our expenditures for labour. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future which may make period to period comparisons less meaningful. Such fluctuations may also adversely affect our liquidity and thus our ability to develop new products. As a result, our profitability, results of operations and financial condition may be affected. In addition, it is possible that in some future periods, our operating results may be below the expectation of market analysts and investors.

We may not manage the supply-demand cycle effectively

We typically place orders to our contract manufacturers approximately 12 weeks prior to the anticipated delivery date for a product and may be prior to receiving an order for our products. Therefore, our orders to contract manufacturers are, to an extent, based on our forecasts of demand from our customers. If we incorrectly estimate customer demand, we may misallocate resources, resulting in, among other things, excess inventory which may become obsolete or foregone revenue opportunities.

RISK FACTORS

We may face significant risks in expanding our product offerings to cover new markets and technologies

Our products under development (details of which are set out in the section headed “Business — Products — Products Under Development”) includes products for new markets and emerging display technologies. There are significant risks involved in our expansion plans, including, but not limited to, correctly implementing such plans on a timely and efficient basis and correctly anticipating the level of demand for our products. Our success depends largely on our ability to anticipate and react to expected changes in future demand for display IC products. If the timing and nature of our expansion do not match market demand, our business strategy may need to be revised, causing delays in the launch of new products, which may affect our growth and future prospects. On the other hand, if we fail to accurately anticipate demand, our business could be seriously harmed as we may not be as cost-effective as our competitors who may have benefited from increased economies of scale, and our supply of products may not be able to satisfy the needs of our current or potential customers. In addition, if we do not allocate our resources in line with future demand for particular products or do not have sufficient resources to do so, our business and financial results could be adversely affected.

We may not be able to keep up with our competitors

We compete with global display IC producers, which may be divided into two broad classes: captive contract manufacturers which are owned by brand owners and independent producers like ourselves. Some of our competitors may have greater access to capital and technology and consequently have more resources than we do. As a result, they may be able to compete more aggressively over a longer period of time than we can. Most brand owners purchase display ICs from more than one vendor and some of our competitors have shown a willingness to quickly and sharply reduce prices in order to maintain turnover during periods of reduced demand. If demand for display ICs does not keep pace with supply growth, our business will be subject to more intense competition, and we may suffer from the resulting downward pricing pressure. We may also be forced to delay, or even cancel, our expansion plans, which would adversely affect our future profitability and growth prospects. For more information on our competitors, see “Business — Competitors.”

We are highly dependent on certain key employees

Since the inception of our business, our operations have been carried on by substantially the same senior management team led by Mr. Leung Kwong Wai. Details of the senior management team are set out in the section headed “Directors, Senior Management and Employees.” Our founding management team members had in fact been working together for some years prior to joining our Group and we believe that our success has been due in part to this close working relationship. If any individual member of this founding management team were to leave the Group, such member may not be easily replaceable.

We depend heavily on the decades-long experience and relationships within the semiconductor industry of our senior management team (including our non-founding management team) to provide us with critical knowhow throughout the development of our projects. As a result, the loss of the services of our senior management team may impact on our ability to strategically steer the Company’s future direction and to successfully design and develop innovative products and maintain our reputation as an innovator within our industry.

Our business may suffer if we are unable to recruit skilled and talented employees

As a fabless IC design house, our main resource is in our employees. The success of our business depends upon attracting and retaining experienced executives, engineers and other employees. We will be required to substantially increase the number of skilled personnel in implementing our future expansion plans. The

RISK FACTORS

competition for employees in our industry is intense as the core technology in our products have parallel applications in other unrelated industries such as audio and consumer electronics. We compete with regional competitors for talent. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel, our growth and future prospects may suffer.

We rely to a large extent on our intellectual property, and failure to protect such property may affect our ability to compete

We believe that one of our core strengths lies in our library of proprietary technology and knowhow. If we fail to protect these intellectual property rights, our competitors could in theory sell products based on technology that we have developed, which could harm our competitive position and decrease our revenues. The protection of intellectual property rights is and will continue to be important to the success of most display IC manufacturers. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our intellectual property (details are set out in “Business — Design and Development — Intellectual Property”). Despite our efforts, unauthorised parties may successfully duplicate our products or technology and monitoring such unauthorised use of our intellectual property is difficult, particularly in foreign countries where the laws or its enforcement may not protect our proprietary rights as fully as in Hong Kong.

Litigation and other disputes involving intellectual property are widespread in the IC industry. We may become a party to litigation or other disputes in the future either to protect our intellectual property or as a result of an alleged infringement of another party's intellectual property. Owners of patents or other intellectual property rights may make approaches to us with a view to requiring us to license from them their patents or other intellectual property rights, even though we may not believe that such a licence is required (see “Business — Design and Development — Intellectual Property”). Any resulting lawsuit could subject us to significant liability for damages or invalidate our proprietary rights. Regardless of their outcome, such lawsuits and disputes would likely be time-consuming and expensive to resolve and would divert management time and attention.

We may not be able to manage our rapid growth in an efficient manner

During the past year, we have significantly increased the scope of our operations and increased our revenue from US\$37.5 million in 2001 to US\$109.3 million in 2003. This growth has imposed and any future growth will continue to impose, greater demands on our management personnel, systems and resources. Operational and financial systems, procedures and controls, including accounting and other internal management systems, training and human resources processes will have to be upgraded to keep pace with our growth. We may need to increase employee compensation levels in order to attract and retain our existing executives and staff and the additional personnel we expect to require. If we are unable to effectively manage our expanding operations, our profitability may be harmed.

Issuance of shares under the Share Award Plan to employees will have dilution effect and may affect our profitability

Issuance of Shares under the Share Award Plan will cause dilution to the earnings per Share and net asset value per Share because of the increase in number of Shares outstanding after the issuance.

Currently, there is no recognition and measurement requirements for the issuance of shares to employees through capitalisation of retained earnings specified under the Statement of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants. The cost of shares granted to certain employees was not charged to the profit and loss accounts. While we cannot predict how and when SSAP may change, if SSAP in the future requires that the issue of new Shares to employees must be expensed at fair value (i.e. at market price), the profitability of the Group will be reduced.

RISK FACTORS

Fluctuations in exchange rates could adversely affect our business

Throughout our operating history, almost our entire net revenue has been denominated in US dollars. Portions of our cost of sales are, and historically have been, denominated in US dollars, HK dollars, N.T. dollars and Chinese Renminbi, while some of our capital expenditures have been denominated in Japanese Yen. Our financial statements are expressed in US dollars. We record a foreign currency denominated transaction on the date it occurs in US dollars using the prevailing exchange rate for such date. For more information regarding our foreign exchange risk, see “Financial Information — Market Risk.”

We cannot predict the impact of future exchange rate fluctuations on our financial condition or results of operations. Although we currently enjoy a measure of natural hedging with respect to our foreign exchange exposure because the majority of both of our costs and revenues are denominated in US dollars, to which the HK dollar is pegged within a certain range by the Hong Kong Monetary Authority, there is no assurance from the Hong Kong government that such a peg will continue in the future.

We cannot predict the effect of another outbreak of SARS or other serious contagious diseases

The outbreak of Severe Acute Respiratory Syndrome in early 2003 affected businesses in Asia adversely, including our business as business travel was reduced substantially. Currently, we are unable to forecast the potential impact of another SARS outbreak or an outbreak of other serious contagious diseases. Though we believe SARS has been brought under control in China, as evidenced by the World Health Organisation removing all PRC cities from its travel advisory list by the end of June 2003, should another outbreak of SARS or other serious contagious disease take place, our results of operations may be adversely affected. Also, if any of our suppliers is hit by SARS, the supplier may need to halt operation thereby affecting the manufacturing of our products.

RISKS RELATING TO THE INDUSTRY

The uptake of display ICs is dependent on the performance of the industries in which they are employed, which is subject to factors beyond the control of any display IC manufacturer

Display ICs are used in products as diverse as cellular phones and television displays. Market conditions for these end products may be volatile. The demand for semiconductors is generally cyclical in nature as such demand is subject to, among other things, the fluctuation of end applications. Future downturns in any industry where display ICs are used may be similarly severe and could seriously harm our business or delay the launch of our new products. We cannot assure you that we will be able to accurately anticipate or predict future market downturns in these end markets or that any downturn would not have a material adverse effect on our financial condition or results of operations. For more information on the display IC industry as a whole, see “Industry Overview.”

The price of ICs declines over the product life cycle due to technology advances and we may not be able to respond to rapid technological changes

The display IC industry is characterised by rapidly changing technology, evolving display standards and technologies and the frequent introduction of new products. As a result, the price of each display IC product typically declines over its product life cycle, reflecting product obsolescence, decreased demand as customers shift to more advanced products and increased competition as more IC producers are able to produce similar products in larger numbers. The price decline accelerates when the next evolution of that product is accepted by the market and no new applications can be found for such existing product. Therefore, our success depends on our continued ability to deliver innovative products that will be accepted by the market to maintain or improve our profitability. Failure to do so on a timely basis and with minimal disruption to production and delivery may impact adversely on our results, operations or financial condition.

RISK FACTORS

If we do not continually produce advanced products that will be accepted by the market, the average selling price of our products will decrease and sales of such products may also decrease as our customers may purchase a greater proportion of products from our competitors, which may cause our operating revenue to decline.

Display IC producers typically have a lengthy and expensive sales cycle

The sales cycle for display IC products is long and requires the investment of significant resources with each potential customer without any assurance of sales. Using our operations as an example, the sales cycle typically begins with a three to nine month IC development stage and test period followed by a three to twelve month end product development period by brand owners and an additional three to twelve month period before a brand owner commences volume production of end products incorporating our finished products. This fairly lengthy sales cycle creates the risk that customers will decide to cancel or change specifications for their products, resulting in sudden changes in specifications for our products, resulting in increased production time and costs. Failure to meet such specifications may delay the launch of the display IC producer's products.

The market for display ICs is subject to factors, such as industry standards, over which we have no control

Our products or the products of brand owners and display module makers are designed to conform to specific industry standards. If our customers do not adopt or continue to follow these standards or if industry standards change, our products will be less competitive and our sales may be reduced. We are also required to conform to industry standards among display IC products and competing standards may emerge which we may not adopt in a timely manner, reducing our sales or requiring us to make significant expenditures to expedite the introduction of new products to market.

The manufacturing of ICs is subject to the availability of raw materials over which we have no control

Our supply of ICs is dependent on the consistent supply of raw materials to our contract manufacturers. These raw materials have historically been subject to fluctuations and we may not directly control the decisions made by our contract manufacturers with respect to their choice of suppliers. The unavailability of raw materials to our contract manufacturers for whatever reason may lead to our supply of ICs being reduced or the average cost price of each IC to increase, either of which may affect our revenues and profitability.

Many of our IC customers and contract manufacturers are vulnerable to natural or man-made disasters and other events outside of our control

Some of our distributors and contract manufacturers, in parallel with the IC industry as a whole, are located in Taiwan and Japan. As a result, many IC producers are dependent on the infrastructure supporting the companies in those locations and their ability to avoid damages from earthquakes, floods, power losses and similar events. It is not certain whether the general infrastructure in those locations are sufficient or adequate to avoid or mitigate the effects of these disruptive events.

Taiwan and Japan are susceptible to earthquakes. In recent years, both locations have experienced severe earthquakes that caused significant property damage and loss of life. These earthquakes caused damage to production facilities and adversely affected the operations of many IC and IC-related companies. There can be no assurance that future earthquakes will not occur and result in major damage to the facilities of our customers or contract manufacturers. If we are not able to replace capacity from other contract manufacturers or our orders from customers decrease as a result of such event, there may be a material adverse effect on our results of operations.

RISK FACTORS

We face substantial political risks associated with doing business in Taiwan and South Korea

As stated earlier, a substantial number of IC customers and contract manufacturers (including our customers and contract manufacturers) are located in Taiwan. Accordingly, our business and the market price of our Shares may be affected by changes in Taiwan governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan that affect such IC customers and contract manufacturers but are outside of our control. Although economic and cultural relations between Taiwan and the PRC have improved in recent years, the PRC government has never renounced the use of force to achieve re-unification with Taiwan. Further, one of our main contract manufacturers is located in South Korea, with which political relations with North Korea have been volatile in recent years. If hostilities were to break out between Taiwan and the PRC or between South Korea and North Korea, our supply of products may be adversely affected.

RISKS RELATING TO THE SHARES

An active trading market for our Shares may not develop, and their trading prices may fluctuate significantly

Prior to the Global Offering, no public market for our Shares existed. We have made an application to the Stock Exchange for the listing and trading of our Shares. However, a listing on the Stock Exchange does not ensure that there will be a liquid public market for our Shares after the Global Offering. If an active public market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected.

Purchasers of our Shares in the Global Offering will experience immediate dilution and purchasers of our Shares may experience further dilution if we issue additional Shares in the future

The Offering Price of our Shares is higher than the net tangible book value per Share issued to our current Shareholders as part of the Reorganisation. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value of HK\$1.47 per Share assuming an Offer Price of HK\$1.825 (being the mid-point of the stated offer price range of HK\$1.60 and HK\$2.05), and our current Shareholders will experience an increase in the net tangible book value per Share of their Shares. In order to expand our business, we may consider offering and issuing additional Shares in the future which may cause dilution in the net tangible book value per Share for our Shareholders. In addition, any issue of Shares pursuant to the share-based remuneration schemes (as described in the section headed "Continuing Schemes" in Appendix IV to this prospectus) may cause further net tangible value per share dilution.

Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of the Shares

The Shares held by our current Shareholders are currently subject to certain lock-up restrictions which will expire on the date falling 6 months after the date on which trading in the Shares commence on the Stock Exchange. While we are not aware of any plans by any of such current Shareholders to dispose of significant amounts of Shares after the completion of the Global Offering, we cannot provide any assurance that any of them will not dispose of any Shares they may own now or in the future. Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of the Shares.

RISK FACTORS

Certain press articles have been circulating in the Hong Kong media which may not be accurate

We have noted that various press articles have appeared regarding the Company's proposed initial public offering and the Group's business. The articles are stated to contain certain opinions, projections and other forward looking information, including, for example, estimates of future shipments in relation to the Group and projections of demand for flat panel LCD monitors and televisions. To the extent that such information is not disclosed in this prospectus, they may not be accurate. Potential investors should make any investment decision with respect to the Global Offering on the basis of the information contained in this prospectus only.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- any capital expenditure plans, particularly plans relating to securing capacity;
- our operations and business prospects, including development plans for our existing and new businesses and products;
- our financial condition and results of operations; and
- future developments and the competitive environment in the display IC industry.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- general economic, market and business conditions;
- the commercial performance of the end products in which our display ICs are employed;
- changes or volatility in foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the display IC industry on the demand for and price of our products; and
- various business opportunities that we may pursue.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance and the Stock Exchange Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

SELLING RESTRICTIONS

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Offer Shares or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restriction on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

United States

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred within the United States, except to QIBs in accordance with Rule 144A, or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

The Offer Shares are being offered and sold outside the United States to non-US persons in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Global Offering and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements or in accordance with Rule 144A.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus or the offering memorandum relating to the International Placing. Any representation to the contrary is a criminal offence in the United States.

Canada

The Offer Shares may only be offered in those jurisdictions in Canada and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Offer Shares. This prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Offer Shares. No securities commission in Canada has reviewed or in any way passed upon this prospectus or the merits of the offering and any representations to the contrary is an offence.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom and, prior to the expiry of a period of six months from the latest date of the issue of such Offer Shares, will not be offered or sold to any persons in the United Kingdom, except to persons whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 and where applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it or in relation to any Offer Share in, from or otherwise involving the United Kingdom have been complied with. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares except in circumstances in which section 21(1) of the FSMA does not apply to us.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Sections 274 and 275 of the Securities and Futures Act (Act 42 of 2001) of Singapore (the "Singapore Securities and Futures Act"). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than: (i) to an institutional investor or other person specified in Section 274 of the Singapore Securities and Futures Act; (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Securities and Futures Act.

Japan

The Offer Shares offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). The Offer Shares may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered or sold and may not be offered or sold directly or indirectly in the PRC or to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the Offer Shares shall only be offered or sold to natural or legal persons in Taiwan, Hong Kong or Macau or any country other than the PRC by means of this prospectus or otherwise.

Germany

This prospectus is not a Securities Selling Prospectus within the meaning of the German Securities Prospectus Act of 13 December 1990 and has not been filed with and approved by the Federal Supervisory Authority, and the Offer Shares may not be offered or sold and copies of this prospectus or any document relating to the Offer Shares may not be distributed directly or indirectly in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act of 13 December 1990.

Netherlands

The Offer Shares may not be offered, sold, transferred or delivered in or from within the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, and neither this prospectus nor any other document in respect of the Global Offering may be distributed or circulated in the Netherlands, other than to individuals or legal entities who or which trade or invest in securities in the conduct of a profession or business within the meaning of the Netherlands Securities Transactions Supervision Act 1995 (Vrijstellingsregeling wet toezicht effectenverkeer 1995) and its implementing regulations (which includes banks, brokers, securities institutions, insurance companies, pension funds, investment institutions, other institutional investors and other parties including treasury departments of commercial enterprises and finance companies of groups which are regularly active in the financial markets in a professional manner).

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French Code monétaire et financier and Regulations no. 98-01 and 98-08 of the Commission des opérations de bourse ("COB") and has therefore not been submitted to the Autorité des marchés financiers for prior approval.

It is made available only to qualified investors and/or to a limited circle of investors (as defined in Article L.411-2 of the French Code monétaire et financier and in the Decree no. 98-880 dated 1 October 1998), on the condition that it shall not be passed on to any person nor reproduced (in whole or in part), that investors act for their own account in accordance with the terms set out by the said decree and undertake not to retransfer, directly or indirectly, the securities in France, other than in compliance with applicable laws and regulations (Articles L.411-1, L.412-1 and L.621-8 of the French Code monétaire et financier) and that, in the case of an offering to a limited circle of investors, comprising more than 100 investors, such investors have testified that they have personal family or personal business ties to a member of the governing body of our Company.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Italy

The Offer Shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to professional investors, as defined by CONSOB, the local stock market regulator in Italy, in compliance with the terms and procedures provided by Legislative Decree no. 58 of 24 February 1998, or the Finance Law, or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of 14 May 1999, or the Issuers Regulation applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and any such offer, sale or delivery of the Offer Shares or distribution or copies of this Prospectus or any other document relating to the Offer Shares must be made (i) by investment firms, banks or financial intermediaries authorised to carry out such activities in Italy in accordance with the Finance Law, Legislative Decree no. 385 of 1 September 1993, or the Banking Law, CONSOB Regulation no. 11522 of 1 July 1998 and any other applicable laws and regulations; (ii) in compliance with Art. 129 of the Banking Law, as supplemented by Bank of Italy's instructions, under which the issue or placement of securities in Italy is subject to a prior notification, unless an exemption, depending, among others on the amount of the issue or placement applies; and (iii) in compliance with any other applicable notification requirement or limitation which may, from time to time, be imposed by CONSOB or the Bank of Italy.

Cayman Islands

The Offer Shares may not be offered to the public in the Cayman Islands.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), and any Shares which may be issued pursuant to the exercise of the options which were conditionally granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on 8 April 2004. Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in our Shares. None of our Company, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of our Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In connection with the Global Offering, the Global Coordinator, as stabilising manager, or any person acting for them, on behalf of the Underwriters, may over-allocate or effect any other transactions (including stock borrowing arrangements) with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements and any stabilising activity will be entered into in accordance with the stabilising laws, rules and regulations in place in Hong Kong. However there is no obligation on the Global Coordinator or any person acting for them to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Global Coordinator and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 90,536,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilisation) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price, (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, Shares for the sole purpose of preventing or minimising any reduction in the market price, (v) selling Shares to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Global Coordinator, or any person acting for them, may maintain a long position in our Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for them, will maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilising action by the Global Coordinator, or any person acting for them, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the day on which trading of our Shares commences on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Public Offering. The stabilising period is expected to end on 29 April 2004. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period.

Any stabilising action taken by the Global Coordinator, or any person acting for them, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the Shares by the Global Coordinator, or any person acting for them, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by subscribers or purchasers.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFERING SHARES

The procedure for applying for Public Offering Shares is set out in "How to Apply for Public Offering Shares" and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering."

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

EXCHANGE RATE CONVERSION

Solely for convenience, this prospectus contains translations of US dollars into HK dollars at the rate of US\$1.00 = HK\$7.80 and of N.T. dollars into HK dollars at the rate of NT\$4.42 = HK\$1.00, The Hong Kong Association of Banks' rates prevailing on 19 March 2004, and such translations are for reference only. These are provided by way of illustration only and no representation is made, and none should be construed as being made, that the US and N.T. dollar amounts set out in this prospectus could have been or could be converted into HK dollars at any particular rate on such date or any other date.

HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY

The Company's principal register of members will be maintained by its principal registrar, Bank of Butterfield International (Cayman) Ltd. in the Cayman Islands and the Company's branch register of members will be maintained by its branch registrar in Hong Kong, Tricor Investor Services Limited.

Dealings in the Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Leung Kwong Wai	Flat A1-1 Summit Court 144 Tin Hau Temple Road North Point Hong Kong	Chinese
Huang Hsing-Hua	Flat E, 24th Floor, Block 2 Wai Wah Center No.11-17 Shatin Center Street Shatin New Territories Hong Kong	Republic of China
Lo Wai Ming	Flat D, 2nd Floor, Block 4 Richwood Park 33 Lo Fai Road Tai Po New Territories Hong Kong	Chinese
Lai Woon Ching	Flat A, 8/F., Tower 11 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong	British
Lam Pak-Lee	9F, No. 116, Hou Kang Street Shih Ling District Taipei Taiwan	Republic of China
Chang Ching-Yi, Steven	11-2 Floor No. 88, Anho Road Section 2 Taipei Taiwan	Republic of China
Wong Yuet Leung, Frankie	Flat F, 20th Floor, Block 3 Estoril Court 55 Garden Road Hong Kong	Canadian

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Choy Kwok Hung, Patrick	37 Mount Sinai Rise #06-01 Leighwoods Singapore	Singaporean
Sun, Patrick	Apartment A1 3/F 41A Stubbs Road Hong Kong	British
Kao Kuen, Charles	B2, 20/F San Francisco Towers 35 Ventris Road Happy Valley Hong Kong	American

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Global Coordinator, Sponsor and Sole Bookrunner	J.P. Morgan Securities (Asia Pacific) Limited 27th Floor, Chater House 8 Connaught Road Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Richards Butler 20th Floor, Alexandra House Chater Road Central Hong Kong <i>As to Cayman Islands law:</i> Maples and Calder Asia 1504 One International Finance Centre 1 Harbour View Street Central Hong Kong <i>As to PRC law:</i> Global Law Office 37/F, Jinguang Centre Hu Jia Lou, Chaoyang District Beijing PRC <i>As to US law:</i> Latham and Watkins LLP 20th Floor, Standard Chartered Bank Building 4 Des Voeux Road, Central Hong Kong
Legal advisers to the Underwriters	<i>As to Hong Kong law and US law:</i> Linklaters 10/F, Alexandra House Chater Road Central Hong Kong
Auditors and reporting accountants	PricewaterhouseCoopers 22nd Floor, Prince's Building Central Hong Kong
Property valuers	Chesterton Petty Limited 16th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Receiving banker	Standard Chartered Bank 9/F 4-4A Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 309GT Ugland House South Church Street George Town Grand Cayman Cayman Islands
Head office and principal place of business in Hong Kong	6/F No. 3 Science Park East Avenue Hong Kong Science Park Pak Shek Kok New Territories Hong Kong
Company secretary and qualified accountant	Lui Kit Har, Keziah (a Fellow of the Hong Kong Society of Accountants)
Audit committee	Choy Kwok Hung, Patrick Sun, Patrick Wong Yuet Leung, Frankie
Authorised representatives	Leung Kwong Wai Lui Kit Har, Keziah
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited HSBC Building Tsim Sha Tsui 82-84 Nathan Road Tsim Sha Tsui Kowloon Hua Nan Commercial Bank, Ltd Suite 5601-03, 56/F Central Plaza 18 Harbour Road Wanchai Hong Kong DBS Bank (Hong Kong) Limited 11/F, The Center 99 Queen's Road Central Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705, George Town Grand Cayman, Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Ground Floor BEA Harbour View Centre 56 Gloucester Road Wanchai Hong Kong

INDUSTRY OVERVIEW

The information and statistics set out in this section have been extracted from various published sources. No independent verification has been carried out on such information and statistics. The Company, the Sponsor, the Underwriters, their respective directors and advisers or any other party involved in the Global Offering make no representation as to the accuracy of such information and statistics, which may not be consistent with each other or with other information.

SEMICONDUCTOR INDUSTRY

Semiconductors are small silicon devices which are used in controlling the passage of electrical currents in electronics devices. Semiconductors are the key foundations of modern electronic devices and systems and have found their way into all areas of modern living. From their beginning as components in then state-of-the-art defense and mainframe systems, semiconductors have spread to wide ranging applications such as telecommunications, personal computing, automotive, consumer products, industrial automation and control systems and security applications.

Broadly, semiconductors are divided into digital, analog or mixed signal devices:

- A digital semiconductor stores information from digital signals or performs functions using digital signals. Digital signals are created by switching an electrical current on or off. They vary based on the sequence of these binary electrical pulses, which are represented by ones and zeros. Such digital data is used for mathematical calculations.
- Analog semiconductors collect, monitor or transform analog signals into electrical signals and vice versa. Analog signals are real world phenomena such as temperature, sound, light or pressure which vary over a continuous range.
- Mixed signal semiconductors combine digital and analog devices on a single die to process both digital and analog signals.

The worldwide semiconductor market has grown in terms of revenues in the past decade. According to Gartner Dataquest, worldwide semiconductor spending on devices will grow from approximately US\$152.5 billion in 2001 to approximately US\$173.2 billion in 2003. As more and more electronic devices and systems are developed for communications, computing and entertainment applications in modern society, the demand for semiconductor devices will continue to increase. Gartner Dataquest predicts that worldwide semiconductor spending will grow to US\$257.1 billion by 2007, representing a compound annual growth rate of over 10.5% from 2002 to 2007.

An integrated circuit (IC) is a microelectronic semiconductor device consisting of many interconnected transistors and other components.

DISPLAY AS HUMAN INTERFACE

The display system of any modern electronic device forms one of the most important components, if not the most important component, of the interface between an individual user, the device and the device's functionality. It is usually through the display system that a user is able to discern the immediate results of user input. Among participants in the display industry, it is accepted that manufacturers of electronic devices often distinguish their newer products from old products by featuring different display systems, whether such difference is real or perceived. A display system typically consists of the display medium (e.g. the screen or the projection lens), the display IC drivers and the graphic controllers. The performance of the overall display system depends to a large extent on the quality of each component. To cater to the display requirements of different products, a variety of basic display technologies have emerged together with related ancillary technologies.

INDUSTRY OVERVIEW

MAJOR DISPLAY TECHNOLOGIES

There are many display technologies which are used in modern applications, among which two display categories, cathode ray tube (CRT) devices and flat panel devices, are dominant. CRT devices are used in traditional televisions and typically become deeper and heavier as the size of the display increases. Flat panel devices are lighter and feature thinner displays, and are mainly used in handheld devices, portable computers, flat panel televisions and computer monitors. Currently, liquid crystal displays (LCDs) and plasma gas technology are the two most widely used flat panel technologies and both of them have significant advantages over CRT displays in terms of large size, thin profile, light weight and low power consumption.

- **LCDs** can be further divided into passive matrix and active matrix, or thin-film transistor (TFT). Passive matrix displays are easier and less expensive to manufacture than active matrix displays but suffer from slower response time, lower resolution, lesser colours and limited viewing angles.
- **Plasma gas displays** feature bright, full-colour, high-resolution and large screen displays. However, the production cost of plasma gas displays is still high and as a result they have been mainly used for super-large television sets.

Other alternative display technologies include liquid crystal on silicon (or LCOS) and organic light-emitting diodes (or OLED). LCOS displays are a combination of traditional liquid crystal display and semiconductor fabrication technologies. OLED displays are made by applying a layer of organic material between two electrically-conductive surfaces. OLED displays are brighter and offer higher contrast compared with LCDs and do not require backlighting for visibility in the dark. OLED displays may, in theory, be made thinner and lighter and require less power than an equivalent active matrix LCD, all of which are the most important considerations for portable devices.

DISPLAY SEMICONDUCTORS

We are in the business of producing display ICs which are used to power and regulate the performance of a display device. The display function of an electronic device usually involves two IC devices:

- **Driver IC.** The main function of a display driver IC is to control the power and voltage requirements for the display medium. The driver IC is responsible for controlling the parameters of the display medium such as colour gradient and intensity, essentially determining the quality of the image on the display unit. The number of driver ICs needed per display unit depends on the display technology as well as the resolution of the display.
- **Controller IC.** There are two main functions of this IC
 - process digital information and output graphic data by receiving information, converting such information into display signals and continually refreshing the display information delivered to each display pixel; and
 - perform graphic processing functions such as creating the display image and producing moving images.

Depending on specific applications and display technology, some of the two functions may not be necessary for any particular display unit or such functions may be integrated into one IC.

Demand for display ICs varies according to end-market applications, such as cellular phone handsets, handheld devices, computer displays and flat panel televisions.

INDUSTRY OVERVIEW

MAJOR DISPLAY APPLICATIONS

Currently, the major display applications include:

- Mobile devices — cellular phone handsets, handheld devices and other portable consumer electronics
- Large-size TFT-LCD panel devices — notebook computers, desktop computer monitors and televisions
- New display applications — microdisplays and E-paper

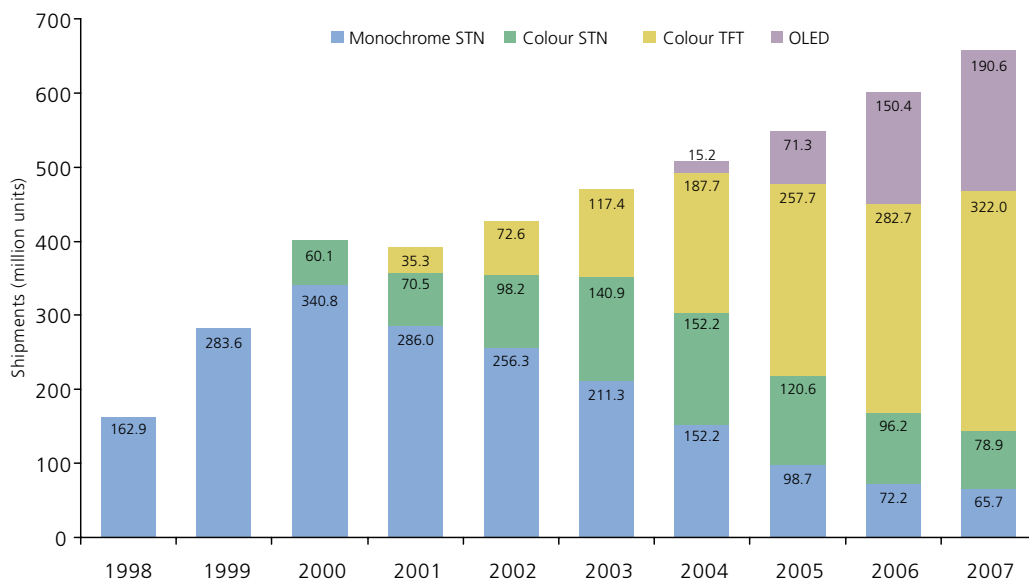
Mobile devices

Due to their small size, mobile displays have commonly been the launchpad for new display technologies. This feature, combined with the visual impact of a new display, has contributed to display becoming one of the key product features of any mobile device and one product feature which is highly customised and device-specific. At least one display IC is required for every display within the mobile device. Currently, every display used in mobile devices may be divided into four technologies: monochrome displays (STN-LCD), colour displays (colour STN-LCD), TFT-LCD displays and OLED displays.

Cellular phone handsets

The global cellular phone market is large and is still growing rapidly. According to IDC, global shipments of cellular phones is expected to grow from 427.1 million units in 2002 to 657.2 million units in 2007, representing a compound annual growth rate of 9.0%. Currently, the majority of cellular phone displays use monochrome STN, colour STN and TFT-LCD. IDC further predicts that by 2004, the cellular phone market is expected to ship more handsets with colour displays than those with monochrome displays. Although monochrome displays remain the market share leader, colour displays (either colour STN or TFT) continue to gain market share, of which TFT appears increasingly popular. According to IDC, TFT solutions are forecasted to dominate handset shipments and rise to 322.0 million units by 2007, while both monochrome STN and colour STN are expected to decline to only 144.6 million units in aggregate. OLED technology is also expected to be a major force in the cellular phone market in the future.

Handset shipments breakdown by display technology



Source: IDC, October 2003

INDUSTRY OVERVIEW

An increasing number of handsets now come with a sub-display as they have become more popular. As those handsets employ two display ICs per phone, volume demand for display ICs is expected to outpace the shipment of handsets.

Handheld devices

The handheld device market (in which IDC broadly includes pen-based PDAs, keyboard-based PDAs and converged mobile devices) is currently undergoing a transition from monochrome and colour STN display solutions to a future of TFT and OLED technologies. Over the past year, the gap between shipments of STN displays and TFT displays has narrowed and TFT displays are the most commonly used displays for the handheld device market. According to IDC, TFT displays are forecasted to grow from 4.3 million units in 2002 to 8.7 million units in 2007.

Other portable consumer electronics

Portable gaming platforms, MP3 players and digital photography/video devices are some of the consumer products which are expected to drive future display growth. For example, IDC predicts that digital still camera shipments will grow from 30.4 million units in 2002 to 55.4 million units in 2007, representing a compound annual growth rate of 12.8%. Manufacturers of consumer electronics are increasingly using display to differentiate their products, and in parallel with similar trends in cellular phone handsets and handhelds, consumer devices are also replacing older display solutions with newer TFT and OLED solutions.

Large-size TFT-LCD display devices

The primary applications of large-size TFT-LCD displays include:

- Notebook computers
- Desktop computer monitors
- Televisions

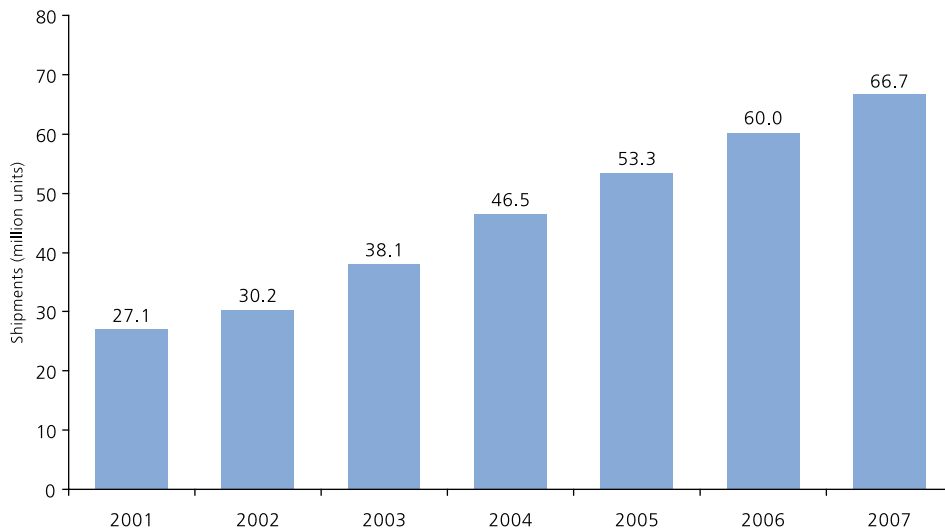
Unlike cellular phone displays where only one display IC is required for a cellular display, each large-sized TFT-LCD panel requires multiple display ICs, depending on the resolution of the display unit. For example, a 17-inch TFT-LCD monitor typically requires more than 10 display ICs. As the trend is for flat panel display size to grow over the time, we believe the volume growth in display IC will outpace the unit growth of large-sized TFT-LCD panels.

Notebook computers

The largest segment among electronic devices with large-sized TFT-LCD panels is notebook computers, almost all of which use TFT-LCD panels. Gartner expects the notebook computer market alone to grow from 30.2 million units in 2002 to 66.7 million units in 2007, representing a compound annual growth rate of 17.2%. While 14-inch panels are currently the dominant notebook computer screen size, 15-inch panels are gaining market share as consumers increasingly purchase notebook computers to replace desktop computers.

INDUSTRY OVERVIEW

Notebook computers shipments

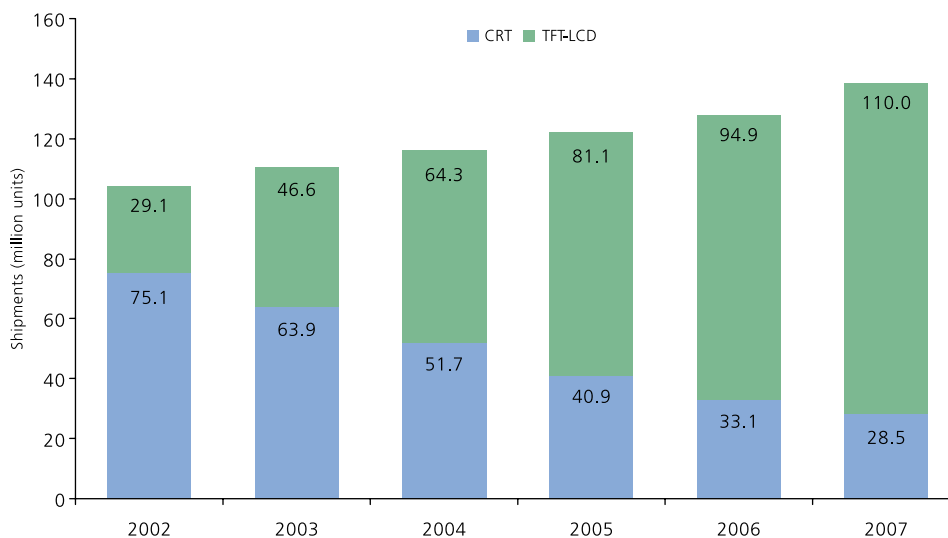


Source: Gartner, December 2003

Desktop Computer Monitors

According to IDC, the desktop computer TFT-LCD monitor market is expected to grow from 29.1 million units in 2002 to 110.0 million units in 2007, representing a compound annual growth rate of 30.4%. Replacement of CRT displays with TFT-LCD panels has been limited historically due to the higher cost of TFT-LCD panels. However, after the rapid price erosion of TFT-LCD panels in 2000 and 2001, the pricing disparity between the mainstream 15-inch TFT-LCD monitors and comparable 17-inch CRT monitors has narrowed significantly. As a result of this price decline, TFT-LCD monitors are gradually replacing CRT monitors, and demand for LCD monitors is projected to surpass that of CRT monitors in 2004. Another potential factor that could increase TFT-LCD monitor demand is the bundling by major computer makers of TFT-LCD monitors, instead of CRT monitors, with their desktop computers. Currently, 15-inch LCD monitors are the most common, though 17-inch and 19-inch LCD monitors are quickly becoming popular in the market.

Worldwide computer monitor shipments, TFT-LCD against CRT



Source: IDC, May 2003

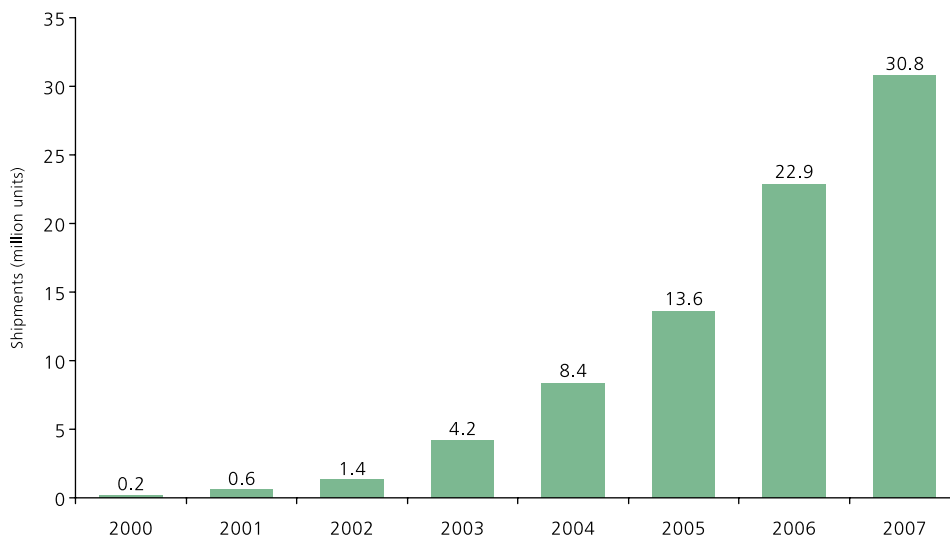
INDUSTRY OVERVIEW

Televisions

The vast majority of televisions sold today are based on traditional CRT technology. However, flat panel televisions using LCD and plasma display technologies are expected to experience rapid growth in the next few years due to their significant size and weight advantages over CRT televisions and expected rapid price declines. Moreover, the advent of digital broadcasting and high-definition television standards in many countries within the next five years should accelerate the replacement of conventional CRT televisions. This trend is expected to accelerate given that some countries have already implemented deadlines to eliminate analog broadcasting entirely.

LCD televisions are expected to continue to show the largest percentage growth among the major electronic devices using large-size displays. DisplaySearch expects the LCD television market to grow from 1.4 million units in 2002 to 30.8 million units in 2007, representing a compound annual growth rate of 85.6%.

Worldwide LCD TV shipments



Source: DisplaySearch, August 2003

New display applications

Microdisplays

Microdisplays are used in two broad classes of applications: projection devices and near-to-eye products. Near-to-eye products include electronic viewfinders in digital cameras and camcorders as well as head-mounted displays (monocular and binocular). Microdisplays are suitable for near-to-eye applications due to their small size (typically less than one-inch across) and extremely high resolutions (a microdisplay less than one-inch across may have a resolution as high as a large-sized LCD panel). Currently, LCOS technology is the most commonly used technology for microdisplays. According to an industry newsletter specialising in the microdisplay industry, the growth of the camcorder, digital still camera and electronic game markets will continue to drive the evolution of near-to-eye markets and the technology of small microdisplays.

INDUSTRY OVERVIEW

E-paper

"E-paper" is the colloquial name for a collection of new display technologies centred around a flexible display medium that is similar to paper but which is able to store and generate electronic images. Display components are printed onto a thin, flexible sheet of plastic. Some of the more promising applications include digital books or "ebooks" and newspapers, department store signs, designer watches, wireless-connected inventory and price tags as well as high security passcards or credit cards. As E-paper has not yet seen widespread commercial use, it is difficult to anticipate how the end markets will develop but we believe that E-paper will be an area in which our approach to product development (co-development with industry partners) will allow us to capitalise on future opportunities.

BUSINESS

HISTORY

The Company was incorporated in the Cayman Islands on 21 November 2003 as the holding company for Solomon Systech Limited, through which our business has been conducted since the founding of our Group in 1999. We have a strong display IC pedigree — many of our key staff members have in fact been working together for over ten years within the display IC division of Motorola Semiconductors Hong Kong Limited, focusing on, among other things, the development and production of display ICs for branded pagers, cellular phones and other consumer applications. In 1999, Solomon Systech Limited (a member of the Group) and Solomon Technology Corporation (a company listed on the Taiwan Stock Exchange Corporation) together obtained certain assets and intellectual property (including products design databases and knowhow, wafer manufacturing process specifications, office and production equipment) of Motorola's LCD business within its Display Division. These assets and intellectual property were transferred to Solomon Systech Limited to engage in the development, production and sales of display ICs.

Solomon Technology Corporation held approximately 70% of Solomon Systech Limited in October 1999. As stated above, Solomon Technology Corporation is a company listed on the Taiwan Stock Exchange Corporation and its principal business is the distribution of IC components. Based on information available on the website of the Taiwan Stock Exchange Corporation, the market capitalisation of Solomon Technology Corporation as at the close of business on 19 March 2004 was NT\$4.6 billion (approximately HK\$1.0 billion). Other investors in Solomon Systech Limited at that time included venture capital funds, individual investors and some employees. Through a series of disposals, Solomon Technology Corporation ceased to be a controlling shareholding of Solomon Systech Limited in December 2002 and disposed of its entire interest in Solomon Systech Limited by January 2003. The disposals commenced in March 2001 when Solomon Technology Corporation disposed of 17.9% of Solomon Systech Limited through a series of disposals, followed by a 10.6% interest in June 2002, a 35% interest in December 2002 and finally a disposal of 6.5% in January 2003. For details of such disposal refer to the section headed "Changes in Shareholding Structure of Solomon Systech Limited" in Appendix IV to this prospectus. As far as we are aware, Solomon Technology Corporation sold down its stake in Solomon Systech Limited as part of an internal policy of divesting a number of non-core assets and investments for liquidity and to raise funds for its operations. Currently, we do not have a controlling shareholder. Although we no longer have any equity relationship with Solomon Technology Corporation, we continue to have a good business relationship with Solomon Technology Corporation through its role as one of our distributors.

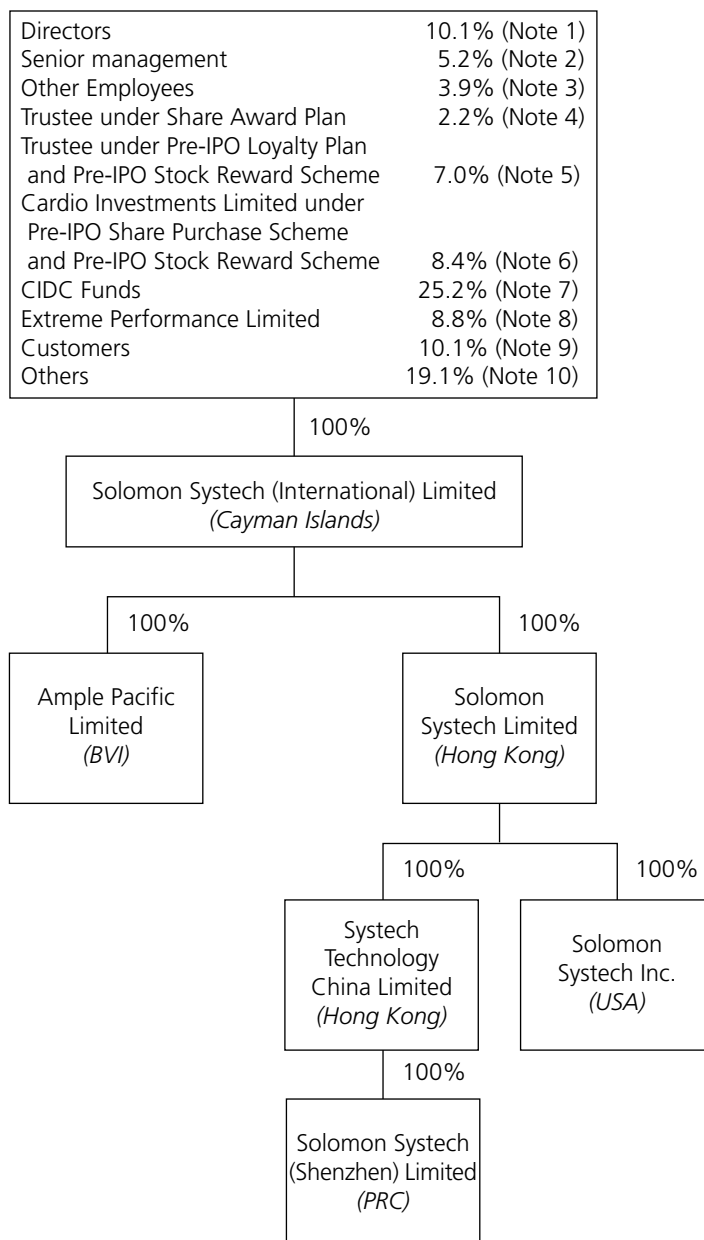
During the Track Record Period, Mr. Leung Kwong Wai, Mr. Lin Hsin-Yih and Mr. Huang Hsing-Hua were the only executive directors of Solomon Systech Limited. The remaining non-executive directors on the board of Solomon Systech Limited, during the Track Record Period, reviewed and approved proposals put forward by the said executive directors, including but not limited to matters which were material to the business operations of the Group such as budget planning and the remuneration of its managing director, and received reports from the executive directors and senior management on the operations of Solomon Systech Limited. In addition, during the Track Record Period, the operation of the Group has been carried on by substantially the same senior management team led by Mr. Leung Kwong Wai with the majority of them having been with the Group for more than three years.

Pursuant to the Reorganisation, our business was transferred to the Company in December 2003 in preparation for the listing of the Shares on the Stock Exchange. The transfer was effected by way of a transfer of the entire issued share capital of Solomon Systech Limited to the Company. Under the Reorganisation, each of the current Shareholders has undertaken to the Company not to dispose of or encumber its/his/her Shares during a period from the date on which the Shares were allotted and issued to them under the Reorganisation to the date falling six months after the Listing Date, other than such Shares which may be acquired under the Global Offering or after the Listing Date or where written prior consent of the Company (for itself and as trustee of the Sponsor) has been obtained (see "Underwriting — Underwriting Arrangements and Expenses — Public Offering — Undertakings").

BUSINESS

The charts below show the shareholding structure of the Group before and after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Group structure chart immediately before the Global Offering



Notes:

- (1) This category comprises six Directors, being Mr. Leung Kwong Wai, Mr. Huang Hsing-Hua, Mr. Lo Wai Ming, Mr. Lai Woon Ching, Mr. Chang Ching-Yi, Steven and Mr. Lam Pak-Lee, who will, respectively, directly hold approximately 2.9%, 0.4%, 1.1%, 2.0%, 0.3% and 3.4% in the Company immediately before completion of the Global Offering. These interests do not include the beneficial interests of each of these Directors in the Shares held on trust/under custodianship for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, Mr. Leung Kwong Wai, Mr. Huang Hsing-Hua, Mr. Lo Wai Ming, Mr. Lai Woon Ching, Mr. Chang Ching-Yi, Steven and Mr. Lam Pak-Lee will, respectively, hold approximately 6.2%, 0.9%, 2.2%, 2.7%, 0.3% and 3.4% in the Company immediately before completion of the Global Offering.

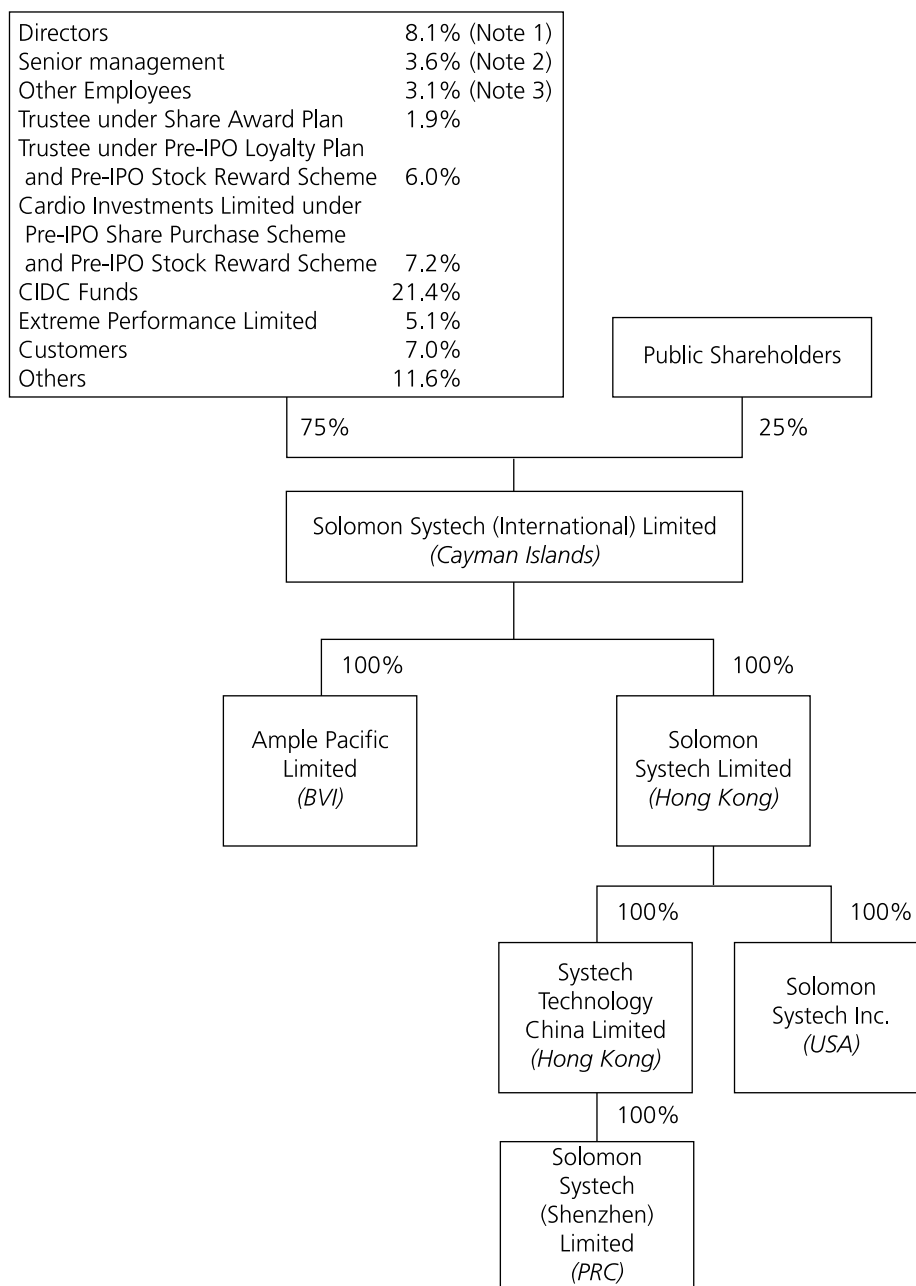
BUSINESS

- (2) This category comprises six senior management members of the Company, being Mr. Lin Hsin-Yih, Mr. Lai Wai-Yan, Stephen, Ms. Lui Kit Har, Keziah, Mr. Cheung Hung Fai, Mr. Chen Denkwei, Kevin and Ms. Lo Oi Yee, Mabel, who will, in aggregate, hold approximately 5.2% in the Company immediately before completion of the Global Offering. Each of their shareholding interests in the Company will amount to not more than 2.1% of our total issued Shares immediately before completion of the Global Offering. These interests do not include the beneficial interests of each of these senior management members in the Shares held on trust/under custodianship for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, Mr. Lin Hsin-Yih, Mr. Lai Wai-Yan, Stephen, Ms. Lui Kit Har, Keziah, Mr. Cheung Hung Fai, Mr. Chen Denkwei, Kevin and Ms. Lo Oi Yee, Mabel will, in aggregate, hold approximately 7.4% in the Company immediately before completion of the Global Offering.
- (3) This category comprises around 65 employees, not being Directors or senior management members, of the Company, each holding their Shares separately. These employees will, in aggregate, hold approximately 3.9% of our total issued Shares immediately before completion of the Global Offering. Each of their shareholding interests in the Company will amount to not more than 0.4% of our total issued Shares immediately before completion of the Global Offering. These interests do not include the beneficial interests of each of these employees in the Shares held on trust/under custodianship for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, the employees will, in aggregate, hold approximately 11.5% in the Company immediately before completion of the Global Offering.
- (4) These Shares comprise Shares which were transferred by Solomon Systech (BVI) Limited to, and allotted and issued to, the Trustee immediately before completion of the Global Offering, for the purposes of holding these Shares on trust for the employees of the Group under the Share Award Plan. The said Shares were not awarded to employees of the Group prior to the Listing. Further details of the Share Award Plan are set out in the section headed "Continuing Schemes — Share Award Plan" in Appendix IV to this prospectus.
- (5) This category comprises Shares offered to the Directors, senior management members and other employees of the Group immediately before completion of the Global Offering, and held by the Trustee as custodian for the Pre-IPO Loyalty Plan and as trustee for the pre-IPO share reward plan (being part of the Pre-IPO Stock Reward Scheme) adopted by the Company for a specified lock-up or vesting period (as the case may be). Further details of the Pre-IPO Loyalty Plan and the Pre-IPO Stock Reward Scheme are set out in the section headed "Pre-IPO Schemes" in Appendix IV to this prospectus.
- (6) This category comprises Shares awarded to the Directors, senior management members and other employees of the Group immediately before completion of the Global Offering, and held by Cardio Investments Limited as trustee for the Pre-IPO Share Purchase Scheme and the employee share reward plan (being part of the Pre-IPO Stock Reward Scheme) adopted by Solomon Systech Limited for a specified lock-up period. Further details of the Pre-IPO Share Purchase Scheme and the Pre-IPO Stock Reward Scheme are set out in the section headed "Pre-IPO Schemes" in Appendix IV to this prospectus.
- (7) This category comprises eight venture capital funds, namely, China Power Venture Capital Co., Ltd. (holding approximately 7.4% of our total issued Shares), Global Vision Venture Capital Co., Ltd. (holding approximately 7.4% of our total issued Shares), China International Investment Co., Ltd. (holding approximately 1.5% of our total issued Shares), CAM-CID Asia Pacific Investment Corp. (holding approximately 1.5% of our total issued Shares), Nien Hsing International Investment Co. (holding approximately 1.5% of our total issued Shares), China Century Venture Capital Co., Ltd. (holding approximately 0.7% of our total issued Shares), J&D Capital Corp. (holding approximately 0.7% of our total issued Shares) and A&D Capital Corp (holding approximately 4.4% of our total issued Shares). These funds are managed by the same fund manager.
- (8) Extreme Performance Limited is a company incorporated in the British Virgin Islands and a venture capital fund controlled by Shui On Construction and Materials Limited, a company listed on the Stock Exchange. Extreme Performance Limited will hold approximately 8.8% of our total issued Shares immediately before completion of the Global Offering.
- (9) Customers of the Group comprise the following:
 - (a) Wintek Corporation, which will hold, in aggregate, approximately 8.3% of our total issued Shares through two vehicles, namely, Wintek Technology (Cayman) Corporation (incorporated in the Cayman Islands) and Wintek (B.V.I.) Corporation (incorporated in the British Virgin Islands), immediately before completion of the Global Offering. Wintek Corporation and its subsidiaries are principally engaged in the business of manufacturing of mobile device display modules. These Shares were obtained by acquiring shares in Solomon Systech Limited sold down by subsidiaries of Solomon Technology Corporation in March 2001.
 - (b) Picvue Electronics, Limited, which is a company based in Taiwan and principally engaged in the business of development and manufacturing of liquid crystal display modules. Picvue Electronics, Limited will hold approximately 1.8% of our total issued Shares immediately before completion of the Global Offering. These Shares were obtained through an investment in Solomon Systech Limited by acquiring shares in Solomon Systech Limited sold down by subsidiaries of Solomon Technology Corporation in March 2001.

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- (10) This category comprises around 22 shareholders (including individual investors, venture capital funds, ex-employees, ex-directors, etc.), each having their own rights in respect of their shareholdings. Except for Taiwan Special Opportunities Fund II which will hold approximately 8.6% of our total issued Shares and Ms. Cheng Siu-ang who will hold approximately 5.2% of our total issued Shares, each of their shareholding interests in the Company will amount to not more than 2.0% of our total issued Shares immediately before completion of the Global Offering. Taiwan Special Opportunities Fund II is a private fund established in January 1997 with net assets amounting to approximately US\$302 million. The fund is managed by AsiaVest Partners, TCW/YFY Ltd and its investors include pension funds, funds of funds, financial institutions, corporations and individuals.

Group structure chart immediately after the Global Offering



BUSINESS

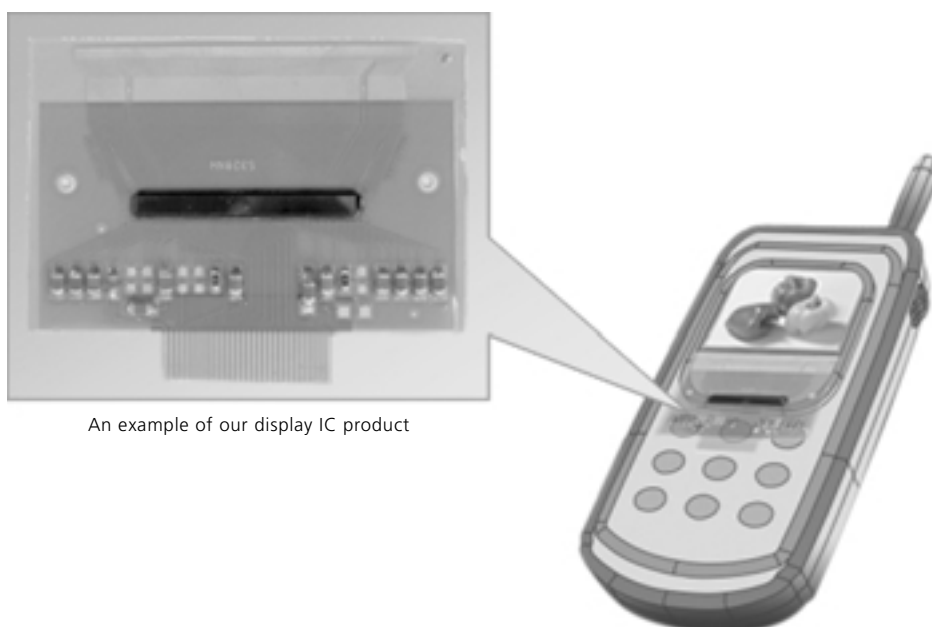
Notes:

- (1) This category comprises six Directors, being Mr. Leung Kwong Wai, Mr. Huang Hsing-Hua, Mr. Lo Wai Ming, Mr. Lai Woon Ching, Mr. Chang Ching-Yi, Steven and Mr. Lam Pak-Lee, who will, respectively, directly hold approximately 2.2%, 0.3%, 1.0%, 1.5%, 0.2% and 2.9% in the Company immediately after completion of the Global Offering. These interests do not include the beneficial interests of each of these Directors in the Shares held on trust/under custodianship for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, Mr. Leung Kwong Wai, Mr. Huang Hsing-Hua, Mr. Lo Wai Ming, Mr. Lai Woon Ching, Mr. Chang Ching-Yi, Steven and Mr. Lam Pak-Lee will, respectively, hold approximately 5.0%, 0.8%, 1.9%, 2.1%, 0.2% and 2.9% in the Company immediately after completion of the Global Offering.
- (2) This category comprises six senior management members of the Company, being Mr. Lin Hsin-Yih, Mr. Lai Wai-Yan, Stephen, Ms. Lui Kit Har, Keziah, Mr. Cheung Hung Fai, Mr. Chen Denkwei, Kevin and Ms. Lo Oi Yee, Mabel, who will, in aggregate, hold approximately 3.6% in the Company immediately after completion of the Global Offering. Each of their shareholding interests in the Company will amount to not more than 1.3% of our total issued Shares immediately after completion of the Global Offering. These interests do not include the beneficial interests of each of these senior management members in the Shares held on trust/under custodianship for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, Mr. Lin Hsin-Yih, Mr. Lai Wai-Yan, Stephen, Ms. Lui Kit Har, Keziah, Mr. Cheung Hung Fai, Mr. Chen Denkwei, Kevin and Ms. Lo Oi Yee, Mabel will, in aggregate, hold approximately 5.5% in the Company immediately after completion of the Global Offering.
- (3) This category comprises around 65 employees, not being Directors or senior management members, of the Company, each holding their Shares separately. These employees will, in aggregate, hold approximately 3.1% of our total issued Shares immediately after completion of the Global Offering. Each of their shareholding interests in the Company will amount to not more than 0.4% of our total issued Shares immediately after completion of the Global Offering. These interests do not include the beneficial interests of each of these employees in the Shares held on trust for each of them under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme. If these beneficial interests under the Pre-IPO Loyalty Plan, the Pre-IPO Share Purchase Scheme and/or the Pre-IPO Stock Reward Scheme are taken into account, the employees will, in aggregate, hold approximately 9.6% in the Company immediately after completion of the Global Offering.

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OVERVIEW

We are an independent fabless semiconductor company specialising in the design, development and sales of proprietary IC solutions that enable sophisticated display applications such as cellular phones and handheld devices. All of our business activities, including customer relations and research and development, are focused on the development of market-ready commercial products and emerging applications. We have strategic collaborations with brand owners to co-develop products in order to deliver advanced display IC solutions. We are also able to leverage our collaboration experience to create advanced products for other brand owners. We outsource the manufacturing process to specialist semiconductor contract manufacturers, namely wafer foundries and packaging and testing factories, but our own engineers develop manufacturing procedures and testing software and hardware to ensure product quality and to control the use of our intellectual properties. To further focus our efforts on developing market-driven and advanced technology products, we appoint regional and global distributors to undertake activities such as market coverage, credit financing and logistics.



An example of our display IC product

How our display IC fits onto a cellular phone

In terms of volume, we believe we are currently one of the leading independent display IC producers for cellular phones. We shipped more than 70 million display ICs in 2003, of which more than 95% were display ICs developed for use in cellular phones. According to IDC's estimate in November 2003, the projected 2003 global shipments of cellular phones was estimated to be approximately 470 million handsets. Our products are used by leading cellular phone brand owners such as Motorola and Sony Ericsson and display module makers such as ALPS Electric Co., Ltd. and RiTDisplay Corporation. Our display IC products are also critical components of consumer electronic products such as MP3 players and handhelds. Although we provide products for different display technologies, we focus on higher value-added sectors such as colour screen and multifunctional single chip solutions. We currently have in production driver/controller ICs for cellular phone and other mobile device applications using STN, colour STN and OLED technologies, and brand owners and display module makers are currently evaluating our

BUSINESS

line of TFT display ICs for cellular phones. For an explanation of the functionality of our driver/controller ICs, see "Industry Overview — Display Semiconductors." We are developing display IC products for large panel TFT-LCD display applications such as notebook displays, desktop monitors and flat screen televisions, which we intend to launch during 2004, and are also developing IC products for display technologies which are in initial stages of commercial applications, such as microdisplays and E-paper.

We have won many industrial awards since our inception:

Award	Organiser
2001 Hong Kong SME Gold Award	Hong Kong Productivity Council and the Hong Kong General Chamber of Commerce
2001 Hong Kong Award for Industry: Export Marketing	Hong Kong Trade Development Council
2001 HKSTP Technological Achievement Award	Hong Kong Science and Technology Parks Corporation
2001 Trade and Industry Department Quality Award	Hong Kong Trade and Industry Department
2001 HKPC Certificate of Merit in Productivity	Hong Kong Productivity Council
2002 HKEIA Gold Award and Grand Award for Outstanding Innovation and Technology Products	Hong Kong Electronic Industries Association
2003 Hong Kong Award for Industry: Technological Achievement	Hong Kong Science and Technology Parks Corporation

We believe that our solid semiconductor heritage and highly-experienced management team (who have an average of 20 years of experience in the semiconductor industry) will place us in a good position to enhance our ability to understand the market trends, future technology requirements and develop new products in the fast-growing display technology sector.

Our headquarters are in Hong Kong and we have regional offices in the PRC, Singapore, Taiwan and the United States, with authorised representatives and distributors in Europe, Japan, Korea, the PRC, Southeast Asia and Taiwan.

OUR BUSINESS MODEL

We aim to develop a full range of display-related IC products covering the market segments in which we participate. We believe our "complete choice of product" approach (for example, in each display technology we provide products dealing with different screen resolutions colours and display technologies) enables brand owners and display module makers to re-use their existing hardware/software design with minimal changes and introduce new models in a shorter period of time and with lower development costs.

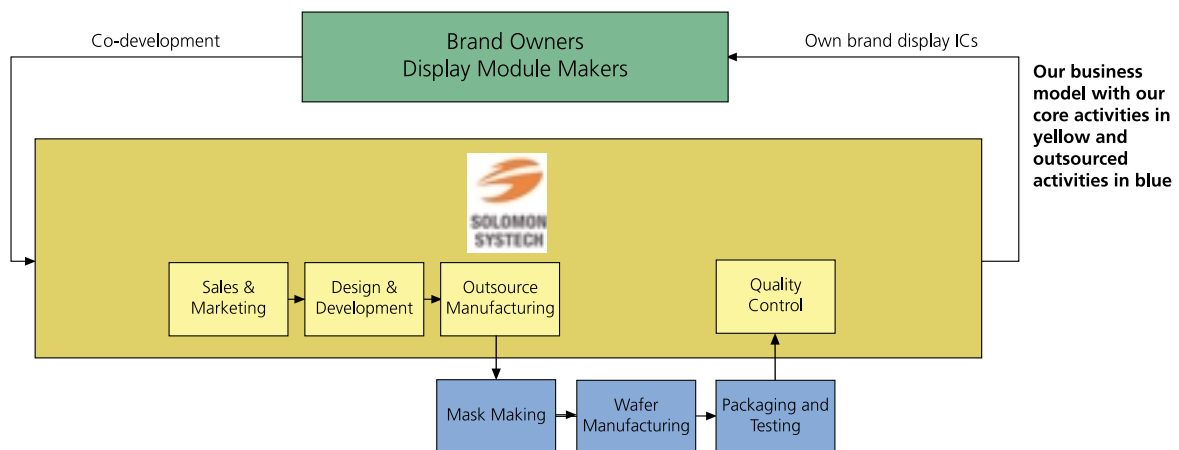
Our business model is centred on the end user of our products. Our sales and marketing team, with the support of our regional and global distributors, maintains and develops direct relationships with brand owners and display module makers who are the end users of our products. Such relationships give us an understanding of market requirements and trends. Often such relationships lead to arrangements for co-development of products with brand owners and display module makers by exchanging development schedules and technical specifications. For the IC related assets, the Group retains the intellectual property rights developed from such products and also the ownership of products developed through this process. Even where we do not co-develop products, our relationships with brand owners and display module makers permit us to develop products on our own as an independent producer. This cooperation has assisted the Group in anticipating trends in the display IC market, such as the move towards newer technologies such as OLED which did not account for a large part of the Group's revenues historically.

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Whether through co-development or independently, we use our experience and engineering expertise to design display ICs that use the relevant technology that can be developed into products. As a fabless IC producer, we do not have any manufacturing facilities of our own and we outsource our manufacturing processes. This allows us to avoid making substantial capital-intensive outlays for production equipment and facilities and to focus our capital and human resources on research and development of products for our end users.

At the end of the design process, we convert the design into digital form for the preparation of a mask, which is used as a template for wafer manufacturing. We outsource mask production to a contract manufacturer known as a mask maker. Employing our supply chain management processes that define production standards, we outsource the manufacture of wafers to wafer manufacturers that use our mask. Once the wafers are manufactured, they are shipped to another contract manufacturer for packaging and testing using processes and quality control standards established by us. The packaging and testing is often conducted using tools and equipment that we have consigned with the contract manufacturer. All wafers that have been packaged and tested and that pass our quality control standard are then shipped to our distributors who resell our products to end users or are shipped directly to end users, as the case may be.

Below is a chart illustrating the key areas of our business model and highlighting our role at the centre of the IC development process, from building a relationship with our end users to delivery of the finished product.



BUSINESS

OUR COMPETITIVE STRENGTHS

Since our establishment in 1999, we have grown to become one of the world's leading independent display IC producers — our revenues were US\$37.5 million in 2001 and increased to US\$109.3 million in 2003. We believe our competitive strengths are key to our strong track record and will be the springboard for our future growth.

- ***We are strong in research and development with proven technological knowhow and a portfolio of core IP in display IC technologies.***

Our core competence lies in our cellular phone display IC design, which allows for small sizes, low power consumption and highly integrated functions (such as graphic, video, processing capabilities and analog functions) in one chip. These rely on intellectual properties which we believe we will be able to leverage across a diverse range of markets such as notebooks, LCD televisions, head-mounted application displays, digital viewfinders and ebooks.

We have developed expertise and key technologies for the design and development of display ICs (for a detailed explanation refer to “— Design and Development — Core Technology”) with both analog and digital functions. We have built up a body of intellectual property and knowhow on display IC technologies, production and testing process technologies, IC packaging technologies, software, system applications and quality management. We believe that our technology and knowhow span all the mainstream technologies in the market for the types of products we offer.

- ***We have a comprehensive portfolio of products.***

We aim to cover a broad range of mainstream display technologies. This gives us the ability to provide a fuller range of products and services for brand owners and display module makers and to capture opportunities in the growing display IC markets, regardless of the technology used. For example, for cellular phones we provide display ICs for STN, colour STN, TFT and OLED displays. This “one-stop” approach has benefited our sales in the cellular phone market. Once we have provided ICs for a particular cellular phone model, we are in a good position to provide display ICs for succeeding models. This benefits brand owners as they are able to re-use their existing hardware/software interface with minimal changes and enables them to launch more models in a shorter period of time. We believe that this approach will bring us similar advantages in the new markets into which we expand.

- ***We work closely with global industry leaders in co-developing next generation products.***

Our display ICs are used in the products of leading global brand owners. We believe this is the result of our close cooperation with brand owners and display module makers on IC and software development. In every segment of the display market in which we presently participate, and for segments which we intend to enter, we have an industry leader to co-develop our products. For example, with handsets we work with Motorola Inc., for OLED displays we work with RiTDisplay Corporation and other OLED display makers, for microdisplays we work with Kopin Corporation and for large-size TFT-LCD displays we work with Quanta Display. Through joint product development, we are able to gain valuable insight into the next generation of products and market trends. This gives us lead time to better plan our business operations to meet upcoming demands and also gives us an opportunity to secure market leadership by becoming an early entrant in any market for new products.

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- ***We have expertise in managing the supply chain.***

Our management team has extensive experience in managing global supply chains. Many of the Group's managers were working in multinational corporations and were responsible for sourcing, procurement and production across different countries. One of our key distinguishing features is our pro-active approach to outsourcing. We work closely with our contract manufacturers to ensure both quality and capacity.

Our engineers developed an internal electronic quality management system designed to manage the quality control process and documentation to document the working procedures, control plans, quality and manufacturing data. To ensure that we have back up capacity, we use at least two contract manufacturers for high volume products. In our efforts to continually explore new high-quality and cost-effective sources of supply, we have become an early user of China's new fabs. We have also assisted a number of factories in Asia in co-developing their manufacturing processes so that they may be contract manufacturers for our products.

- ***We have developed a strong global sales and distribution channel.***

We have local marketing staff covering Japan, the PRC (located in Hong Kong, Shanghai, Shenzhen and Tianjin), Singapore, Taiwan and the US. Our global sales channel is enhanced by our network of authorised distributors and representatives which cover Europe, Japan, the PRC, South East Asia, South Korea and Taiwan. Our partnerships with regional and global distributors allow us to service a global customer base and expand the market for our products.

- ***We have a team of experienced senior management and professionals.***

Being in an IP-intensive industry, we regard our people as our most valuable asset. We have been able to attract and retain a pool of engineering talent. As at 19 March 2004, we had a workforce of 156 staff over 86% of whom were engineers with an average of over 6 years of experience. Our management team, who have an average of more than 20 years of industry experience, have experienced prior industry cycles and have managed multinational operations and businesses. Many of our staff have been in service with us since our inception in 1999. Given the past track record of our management and our team of experienced professionals, we believe that we are well-poised for future growth.

OUR STRATEGY

Through leveraging our competitive advantages and implementing the following strategies, we aim to maintain and strengthen our position as a leading display IC producer in the world.

Strengthening relationships with brand owners and display module makers and leveraging these relationships to expand our customer base

We intend to increase the uptake of our products by continuing to strengthen our existing relationship with key brand owners and display module makers. In connection with this strategy, we will seek to continue and expand our product development initiatives and joint development effort with brand owners and display module makers. Through better understanding of market requirements, we aim to shorten our product development and production cycle and be more focused in our sales and marketing initiatives to better serve existing customers. With a proven track record of serving a stable of internationally-known customers, we will be able to leverage our experience to expand our customer base.

BUSINESS

Expanding our product portfolio to provide a broad range of display IC solutions

We believe that our technological capability in producing quality display ICs for cellular phones and handhelds will enable us to stay abreast of market trends and this capability may be applied in products for other display technologies. We have identified markets which have potential revenue-generating opportunity such as large panel TFT-LCDs and we believe there will be opportunities for us to significantly expand our market scope and size through entering these new markets.

Maintaining our focus on integrated solutions

We will continue to focus on products with high technological content and expanded functionalities. One of the key initiatives behind our research and development is to continually seek to integrate more functions such as multimedia into our ICs, so as to increase the value-added elements in each product line. As set out in "Future Plans and Use of Proceeds — Future Plans," one of the potential research areas which we may explore is the integration of display and non-display functionalities into a single IC.

Building redundancy into our supply chain

We intend to continue our policy of using multiple contract manufacturers and to reduce our reliance on each individual contract manufacturer. In connection with this strategy, we are continually developing higher value products to fully utilise allocated capacity while simultaneously assessing new sources of manufacturing capacity.

Investing in capacity

We plan to improve our ability to secure capacity allocation from existing contract manufacturers by investing in manufacturing capacity. This may take the form of purchasing and consigning critical packaging and testing equipment in cooperative arrangements with contract manufacturers. By buying such production equipment (which the contract manufacturer would otherwise have to provide at its own expense) for the Group's exclusive use, we assist our contract manufacturers in reducing their capital expenditure. The Company believes that this arrangement strengthens the mutual commercial relationship, thereby putting the Group in a better position to secure capacity and also resulting in cost savings for the Group from not having to rent expensive machinery from the contract manufacturer. This strategy ensures we have dedicated manufacturing capacity for our products. We also employ guaranteed uptake arrangements with suppliers, in which we commit to a certain number of orders within a given period of time. We are already using such arrangements for the testing process and may expand such arrangements if we believe they are operationally and economically means of securing capacity. In addition, although we have no current intention to make equity investment in our suppliers, we do not exclude the possibility that we may do so in the future if suitable opportunities arise.

Attracting, retaining and developing quality employees

We aim to identify, attract and recruit highly skilled engineers and business development personnel with relevant industry experience to implement our planned business expansion and expand our pool of talent. In pursuance of this goal, one of the key tenets of our corporate culture is share ownership of the Company by employees. Our senior management and shareholders (as reflected in their agreement to a dilution of their existing shareholdings pursuant to the Reorganisation, more fully described in the section headed "The Reorganisation" in Appendix IV to this prospectus) believe employees should have a stake in the Company. We intend to implement the Share Award Plan and the Share Option Scheme (more fully described in the section headed "Continuing Schemes" in Appendix IV to this prospectus) in a manner which increases the sense of ownership in our staff and to align their interest to those of our shareholders through their participation in our success and long term growth.

BUSINESS

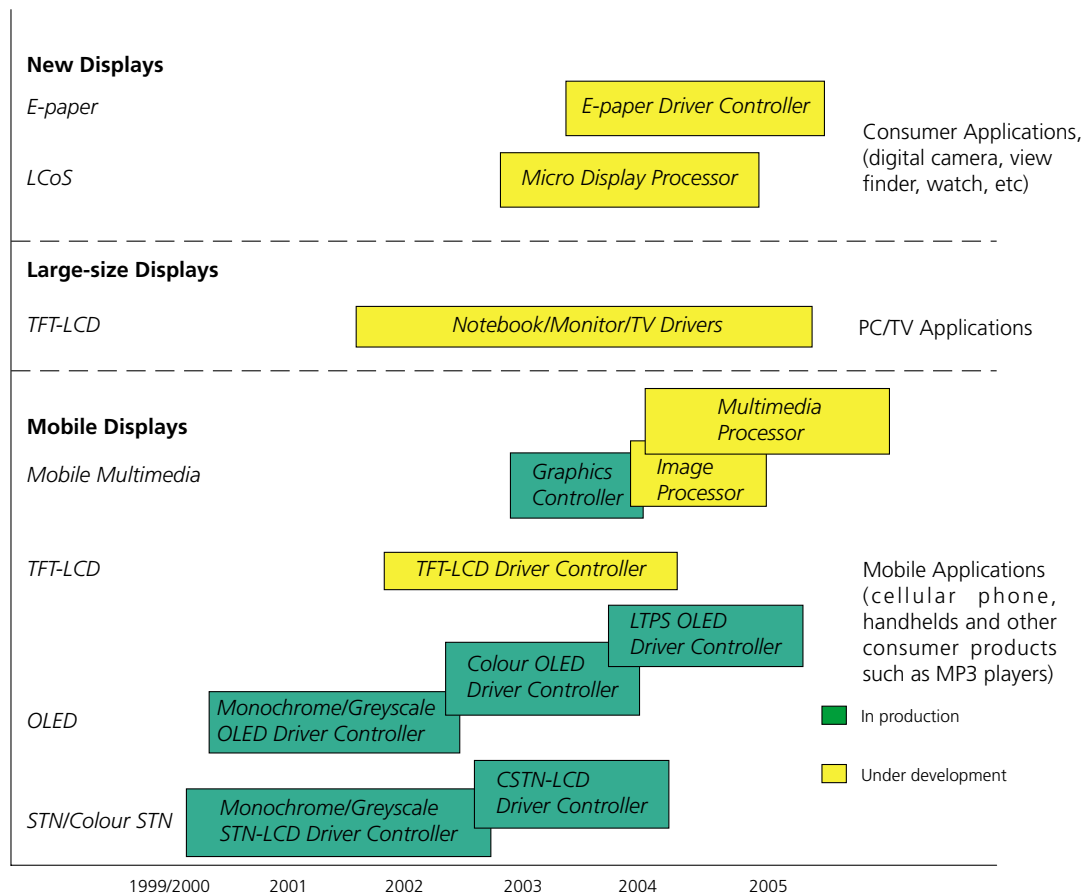
PRODUCTS

Overview

Currently, our primary products are display driver and controller ICs for mobile devices. As a result, one of our key technical strengths lies in our ability to address the low power consumption, small size and highly integrated capability requirements of portable devices (of which more details can be found in “— Design and Development — Core Technology”). We believe that this core strength allows us to leverage our core technology to expand into other end markets. This can be seen in the development of our product lines according to three basic principles:

- technology diversification — the expansion of our product lines to service different display technologies, such as colour STN, TFT, OLED and microdisplay within the same core application;
- application diversification — the expansion of our product lines to service different applications such as LCD TV and consumer products; and
- increasing integration — the combination of different functions into one single chip solution.

These principles are best illustrated in the following product evolution roadmap (the start and end of each product tab denotes its time from initial development to commercial launch, although product development is continuous and is expected to continue after the commercial launch of a product).



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Our IC products are based around core technology building blocks with some variation between different product lines according to end usage. All of our products are manufactured under our own brand name and use substantially our proprietary intellectual property.

Current Product Offerings

Our current product lines primarily comprise mobile device display ICs such as cellular phone display ICs and display ICs for handhelds and other portable consumer products.

Mobile Displays

Our core team of display IC designers has been developing ICs for mobile display systems for more than a decade. As illustrated in the above product roadmap, we built on the design knowhow of integrated controller drivers for STN-LCD displays, starting from monochrome and greyscale and advancing to colour STN-LCD displays, OLED displays and finally TFT-LCD displays. We believe that we cover the complete spectrum of display technologies used in mainstream mobile devices today and that our technological strength positions us well in the market as our ICs are single chip solutions characterised by the following features:

- Low power consumption — essential for portable devices relying on battery power.
- Large scale integration — essential in reducing the overall number of components in a mobile device.
- Compact design — essential in end-user devices where small sizes are more attractive.

Aside from technological features, display IC producers also compete on the basis of time-to-market. In this regard, our strategy of co-developing products with brand owners and display module makers assists us in anticipating technological trends, which we believe enables us to shorten our time-to-market for our products. Below is a product table setting out the major IC products which we have available, broken down by display resolutions.

Technology/Display Resolution (pixels)		100x32	132x48	132x64	128x80	128x128	128x160	176x220
STN	Monochrome	■		■		■		
	Greyscale	■	■		■			■
	Colour	■		■		■		
OLED	Monochrome	■		■		■		
	Greyscale	■		■		■		
	Area Colour	■		■		■		
TFT	Colour	■		■		■		

Availability ■ 1999/2000 ■ 2001 ■ 2002 ■ 2003 ■ 2004

The table below shows the volume of our major display ICs, with a breakdown by technology, for each of the three years ended 31 December 2003.

Product Line	Units Shipped (millions)		
	2003	2002	2001
Monochrome STN	34.7	33.1	18.1
Greyscale STN.....	9.9	12.8	0
Colour STN.....	20.2	0.1	0
OLED	6.2	0.7	0

BUSINESS

Most of our display IC products are used for cellular phones. In terms of volume, we believe we are currently one of the leading display IC producers for cellular phones. Over 95% of our display ICs were developed for cellular phone use in 2003. We also produce graphic controllers for the handheld display market as well as display ICs for other consumer products such as digital cameras and MP3 players. Currently, our shipments of other display ICs are not significant compared with our shipments of cellular phone display ICs.

Products Under Development

Mobile Displays

We continue to expect the mobile device market to be a strong growth driver for our business. As set out in "Industry Overview — Major Display Applications — Mobile Devices," the market for mobile devices is growing consistently and there is a shift towards higher technological displays such as OLED and TFT. We already produce OLED display ICs and are currently developing a more advanced OLED display IC based on LTPS technology. We have a TFT-LCD display IC available and are currently developing a full portfolio of TFT-LCD display ICs for cellular phones.

Further, as multimedia features expand on mobile devices, we anticipate that cellular phones will have broader multimedia functionalities such as audio and video. To take advantage of this trend, we intend to branch out from purely display functions and address the multimedia requirements of the mobile device market. We are currently developing multimedia processors which will address audio and video functionalities and an image processor which will enable mini-cameras to interface with the other components of a mobile device.

Large Panel TFT-LCD Displays

We have identified the large panel LCD industry as an attractive market because the industry as a whole has experienced rapid growth in recent years (see "Industry Overview — Large-size display devices") and each TFT-LCD panel requires more than one display IC. Currently, we are collaborating with a major notebook display manufacturer in Taiwan and a leading television display manufacturer in Japan to develop new large panel LCD display ICs. We believe that our relationship with these leading manufacturers will provide a strong platform for our launch into this market. Our large panel TFT-LCD display ICs are under development and we anticipate that we will have display ICs for notebooks available by mid 2004 and monitor/television products available during the second half of 2004.

E-paper and Microdisplays

We are developing E-paper and microdisplay IC products with industry partners who work together with us to co-develop new IC products for their end product markets. We are currently working with a leading manufacturer in the development of a near-to-eye microdisplay solution targeted at the Japanese consumer market. For E-paper we are working with a leading manufacturer to conceptualise future applications for the technology and to co-develop our future offerings

DESIGN AND DEVELOPMENT

Our Core Technology

LCD Display IC Technology

We have developed two architectures for our LCD electronics platform. The most popular architecture for cellular phones is the one-chip solution where display memory, controller logic, analog signals generation, power electronics, and panel drivers are all integrated in one integrated circuit that performs all digital and analog data processing and generates all the analog driving waveforms necessary to drive the display

panel. To achieve this, we have resolved system integration problems, minimised overall component counts, ensured low power dissipation, superior quality display image with minimum cross-talk and highly desirable system features such as multiple interfaces, programmable partial display, display re-mapping and scrolling, programmable temperature compensation and drive duty ratio and 2-D graphics acceleration. All of the above features have become standard features in our products.

For other LCD applications, we have developed multi-chip solutions consisting of different combinations of graphics controllers, panel driver ICs and power ICs. Standalone graphics controllers are designed with large embedded display memory that allows support for multiple display resolutions and for multiple display types including STN and TFT. They are also designed with advanced display features including rotation, virtual display, floating window and hardware cursors and advanced 2-D graphics, all implemented with proprietary hardware logic and low power gated clock designs, achieving high contrast and high image quality even for complex animation graphics. Our chipset solutions provide a flexible platform to meet the needs of most LCD systems in portable electronics applications, including handsets, handhelds and consumer electronics.

OLED Display IC Technology

From our core strength in LCD electronics, we have expanded our display IC core technology to OLED displays. We developed and patented a novel driving scheme that has the advantage of reducing the transient power demand in driving OLED displays and we employed a number of proprietary design techniques which we believe are instrumental in improving image uniformity, reducing cross talks, lowering supply voltage and reverse bias to extend the lifetime of the display medium as well as integrating various functions to provide a single chip driving solution, thereby enabling system integration at a low cost. We believed we pioneered commercially available single chip solutions for the three generations of monochrome, greyscale, and colour OLED, and we believe our family of OLED display IC products has become a market leader in terms of volume shipment.

Other Display IC Technologies

We have also built up core technologies for other new display systems, including liquid-crystal-on silicon LCOS displays, electrophoretic displays (E-paper), cholesteric and bistable LCDs. Our strategy is to continue building on our existing foundation of display system electronics to leverage across new display markets. For LCD displays, we are developing controller/driver electronics for small to large size TFT-LCD panels, including LCD monitors and LCD televisions. For small TFT-LCD panels, we are sampling our single chip system solution. For large TFT-LCD panels, we have developed the key system interface technologies of LVDS and RSDS, and we are developing a family of gate and source drivers.

High Voltage System on Chip (HV-SOC)

We are able to design and offer a broad range of display semiconductor solutions because we have developed design capabilities that we apply across all of our display ICs. We have developed a core strength in the design of high voltage electronics as well as in the integration of many technological features onto a single chip, often referred to as system-on-chip (or SOC). SOC as a process is part of very large scale integration (VLSI), which began with digital logic before being applied to digital cores, memories, analog functions, and mixed-signal circuits to become SOCs. The supply voltages of these SOCs are scaled down with the device geometries as required to achieve high density. To fully integrate display system electronics in a cost effective manner, we embedded high voltage devices into CMOS VLSI base processes, facilitating the integration of high voltage drivers and high density circuits onto one chip, the preferred single chip architecture in display electronics for mobile applications. Our competency in HV-SOC is a key factor of success for becoming a leader in display system electronics.

A typical HV-SOC consists of hundreds of high voltage or high current segment and common driver outputs. These driver outputs constitute a significant portion of the overall size of a display IC. Our skilled custom physical design engineers are instrumental in producing compact layouts for these output cells to effect a small die size, which is a competitive factor for high volume markets.

Integrated Memory

The integrated display memory is another key component in a typical display controller IC. We have developed an efficient custom memory design approach in producing these display memories in formats that match the preferred slim die form factor for mobile device display module assembly. Our experienced custom memory design engineers have developed proprietary memory architectures and memory circuitries to facilitate the overall silicon area usage efficiency as well as power efficiency.

Analog Expertise

A precision analog system provides the required analog signal processing in a typical HV-SOC. Our team of analog circuit design engineers have employed techniques to provide a wide range of analog functions required for the large variations of display systems electronics, including oscillators, voltage dividers, comparators, amplifiers, data converters, and voltage and current reference generators that are required to control analog signals in the display electronics system in order to maintain consistent display image quality with no variance against temperature or other application conditions. In an SOC with embedded high voltages, analog circuits from low to high supply voltages are both required which is a difficult requirement to meet for any circuit design engineer under a stringent power budget for mobile device applications.

Since only a low voltage supply such as that from a mobile device battery is available in most mobile display systems, high voltages for the display panel is required to be generated. For most of our display IC products, the high voltage generator and power management systems are integrated on the HV-SOC.

Integrated Controllers

An HV-SOC is operated under the control of an on-chip digital controller. We have developed a hardware approach to design this digital controller in order to achieve both optimum silicon area efficiency and power efficiency. For display systems, display image data is generally updated by transmission of data pixel by pixel which is an inefficient process. High-end display controllers employ a graphics engine to accelerate this process. We have succeeded in integrating a graphics engine in the digital controller and in providing graphics commands for application programming.

Packaging and Testing Processes

For high pin count HV-SOC, we have also developed the packaging technology for fine pad pitch package assembly, including chip-on-board, chip-on-glass, chip-on-TAB and chip-on-film. TAB and film designs, as well as test programme development and test hardware design, are part of our HV-SOC core technology. Our strategy is to have complete IC development capabilities in-house, in order to meet the challenges of system integration, quick cycle time and low cost in providing our semiconductor solutions to the market.

Overall Integration Strategy

We have developed the design methodology and the necessary technologies to produce HV-SOC which integrate high voltage drivers, high-density memories, precision analog systems, high voltage power management systems and high complexity digital logics, in high pin count and very compact configurations. We are continuing to build on this core design technology, migrating through four generations of process technologies of 0.6u, 0.5u, 0.35u, and 0.25u in the past four years and we are currently working on 0.18u process technology. As a result, we have been able to develop IC products from STN-LCD to colour STN-LCD and TFT-LCD, as well as OLED and other emerging new display technologies.

Research and Development

Approximately 75% of our employees are university degree holders and approximately 25% have post graduate degrees. We have developed a specialised research and development information system. New product development is a complicated process and is heavily reliant on teamwork from design engineers, product engineers, and quality and manufacturing engineers. The research and development information system provides a platform on project and resources planning, monitoring and information sharing. Project review meetings are conducted weekly and project steering committee meetings are conducted on a monthly basis — the information system keeps a common database so that our teams can work more efficiently and effectively, thereby helping to ensure timely delivery of products.

We emphasise and implement structured training together with local universities. Our Hong Kong headquarters was recently relocated to the new Hong Kong Science Park (HKSP), providing the opportunity to obtain expanded office space and research resources. More research and development infrastructure and activities have become available from development programmes conducted by the Hong Kong Science Park. Our Shenzhen Technology Center was set up in November 2000 under Solomon Systech (Shenzhen) Limited (details of the shareholding structure of this company is discussed in Note 20(b) of the Accountants' Report) and currently the Group has recruited approximately 26 PRC employees (most of whom are university graduates) assisting in IC design, physical design, product evaluation analysis, demonstration board, tab drawing and other fields. The Center recently moved into the Shenzhen High-Tech Industrial Park in September 2003 to explore more collaboration opportunities with the Shenzhen high-tech authorities.

As at 19 March 2004, our research and development team comprised 91 engineers which represents approximately 58% of our staff. Our research and product development teams are currently working on the projects set out in “— Products — Products Under Development.” For each of the three years ended 31 December 2003, our expenditures on research and development were US\$5.0 million, US\$6.5 million and US\$7.7 million respectively. As set out in “Financial Information — Principal Income Statement Components,” our research and development costs primarily comprise cost of materials and equipment, process and tooling costs, amortisation of patents and intellectual property as well as staff remuneration. Much of our research and development budget is currently directed towards the development of mobile displays, large-size displays and new displays, as set out in the products roadmap outlined in “— Products — Overview.”

We make selective investments in technology companies where we identify a potential benefit in sharing complementary technologies. In October 2001, the Group acquired a 16.67% interest (which has subsequently been diluted by further share issues) in Solomon Microtech Limited by subscribing for its shares for HK\$6.6 million. Solomon Microtech Limited is a subsidiary of Solomon Technology Corporation which specialises in the production of ICs for smartcards. As the IC technologies behind the products of Solomon Microtech Limited and the Group were complementary, the investment was aimed at benefiting the product development efforts of the Group. This investment was written off after its net asset value fell below the recorded cost of our investment.

In March 2004, the Company, through one of its subsidiaries, Ample Pacific Limited, subscribed for shares in WE3 Technology Company Limited (“WE3”), a company incorporated in Hong Kong for approximately US\$1.3 million. The Group expects to hold 20% of the issued share capital of WE3. The co-investors of WE3 are expected to include the Quanta Group (holding 40%), CIDI (holding 20%) and certain employees of WE3 (holding 20%). WE3 is principally engaged in the provision of wireless system integration services. This investment is part of our strategy of focusing on developing integrated solutions and will help us strengthen our knowledge of multimedia functions in cellular phone handsets, thereby enhancing our ability to incorporate system functions on to our ICs. Save for the investment set out above, we have no current commitments for research and development expenses.

BUSINESS

We believe that our research and development programme is one of the core strengths of the Company. As set out in “Intellectual Property” below, our research and development is focused on creating new products which are tailored to the needs of brand owners and display module makers. The registration of patents as a basis for generating royalty revenue is not a primary business objective of the Group. Therefore, we believe that our breadth of product range and our ability to identify shifting trends early (such as the increasing market preference for colour and OLED screens) are stronger indications of the success of our research and development programme than the number of patents which we own or have applied for.

Intellectual Property

In the development of our products, we employ product designs and manufacturing processes which are substantially developed in-house. Much of our intellectual property is in our undisclosed libraries of analog and digital functions which are being built for each of our process technologies. We rely on a combination of patents, copyrights, trademarks and trade secret laws, as well as nondisclosure agreements and other methods, to protect our intellectual property. As at the Latest Practicable Date, we had 5 patents, primarily in the United States and had applications pending for 4 more. 4 of the 5 patents were assigned from Motorola Inc., and these form the core and fundamental base patents for the Group’s LCD driver design. From base patents, the Group is able to improve product offerings with better display performance and features, low power usage and small product size. The fifth patent relating to the Driving System and Method for Electroluminescence Display is the first patent successfully applied for by the Company under its own name. This patent is related to OLED technology, with a proprietary driving system for better display quality and lower power usage, which now forms an increasingly important part of the Company’s business. As we position ourselves as an innovative IC producer and not merely a research house, our approach to intellectual property is to continuously develop new products and ensuring that the intellectual properties in relation to those products are not disclosed to any party outside of the Group.

We do employ intellectual property belonging to others in the development of our products, particular for technologies which are effectively industry standards such as leading IC design software such as Cadence, MentorGraphics and Synopsys. Our licensing of such intellectual property does not detract from our focus on developing internal intellectual property as we license only non-core intellectual property, which allows us to focus on the commercial development of our products.

To protect the Group against the risk of patent infringement allegations, we undertake the following:

- Through market intelligence and research, understanding where are the potential infringement areas to avoid.
- Through trade literature searches and the benchmarking of competitor’s products, understanding what are the areas that are open for commercial use and development and which areas are proprietary.
- Adhering to non-infringement restrictions in non-disclosure agreements.
- Filing patents to protect key leading edge products.
- Licensing necessary IP from other IP owners as set out above.

In a series of letters between legal counsels starting in or around November 2002, a company which claimed to be the owner of certain patents registered in the US suggested that certain of our products have incorporated or otherwise used certain of the company’s registered patents without a licence, and invited us to obtain a licence from the company. We carefully reviewed the assertions made in relation to the said company’s patents, and concluded that there were fundamental differences between our products and the US patents in question. In our opinion, such US patents were of no application to our products

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and we informed the company through our lawyers that we were not interested in entering into any licensing arrangement with it. Since our last correspondence with the company, being a letter from our Hong Kong lawyers to the company's US counsel in April 2003, we have not received any further communication from the company or its US counsel.

SALES AND MARKETING

We have our own sales and marketing team who work with regional and global distributors appointed by us. Currently, we have sales offices in the PRC, Singapore, Taiwan and the United States, with authorised representatives and distributors in Europe, Japan, Korea, the PRC, Southeast Asia and Taiwan. Our sales and marketing team maintain and build relationships with brand owners and display module makers by providing field applications support and customer service to brand owners and display module makers. Our sales and marketing team also work to raise the profile of our brand. As at 19 March 2004, we had 21 employees responsible for sales and marketing, most of which have a technical background.

Distributors

Our sales are typically made to regional and global distributors who account for the majority of our revenue. Our distributors resell our products to brand owners and display module makers. These distributors also perform a useful role in identifying business/market opportunities, business networking, organising logistics such as product shipments and trade financing, thereby freeing our resources to concentrate on product development, branding and maintaining our relationship with brand owners and display module makers. Our distributors' role is purely to facilitate our business development and product distribution. Our sales and marketing team remains directly responsible for maintaining our key business relationships. We typically offer our distributors and other direct customers 30 days trade credit. In practice, customers make payments based on monthly statements and the debtors' turnover days will always be over 31 days.

At 31 December 2003, 2002 and 2001, we had accounts and bills receivables of US\$20.9 million, US\$14.5 million and US\$3.0 million, respectively, representing an increase of US\$6.4 million, or 44%, in Fiscal 2003 compared to Fiscal 2002 and an increase of US\$11.5 million, or 383%, in Fiscal 2002 compared to Fiscal 2001. The debtors' turnover days for Fiscal 2003, 2002 and 2001 were 70 days, 88 days and 78 days, respectively. We usually issue reminders for outstanding balance with age over 30 days and will take other further actions for balance with age over 60 days. We have not historically had any material doubtful debt problem in Fiscal 2001, 2002 and 2003.

Our relationship with distributors is governed by distributor agreements, under which we appoint non-exclusive distributors in specified territories. The distributors will conduct sales and marketing activities in the specific territories. Each distributor is required to prepare periodic reports with respect to inventory on hand, resales and booking forecast. Upon request, they are also required to furnish us with detailed market analyses and reports with respect to their sales strategy, pricing levels, customer identities and sales volume. Although the distributors account for the majority of the our direct sales, the price at which products are sold to the distributors are usually determined by direct discussions between us and brand owners/display module makers. The price at which distributors purchase from us is at a discount (reflecting their margin) to the price agreed with the brand owners/display module makers. None of the distributors have exclusive rights to distribute our products and we are entitled to appoint other distributors at any time. We are also able to terminate our business with a distributor or reduce our shipments to it upon notice if we are dissatisfied with its performance. In this manner, we are in a position to control the relationship between the distributors and the brand owners.

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Co-Development

We communicate with brand owners and display module makers on a regular basis to understand their requirements, at times well in advance of the development and/or launch of the end product. Our established relationships with brand owners and display module makers enable us to determine market trends and anticipate their future needs. From their input, we prepare a product development plan which will be used to set internal targets. We also co-develop products with such brand owners and display module makers. Typically, no formal or written commitment or undertaking is made in the course of such cooperation and the only understanding between the Group and brand owners/display module makers from such cooperation relates to compatibility with end products and timely delivery of the display ICs. Our research and development efforts track such targets to ensure that, insofar as technological capability is concerned, we are in a position to offer the product. To ensure that there is sufficient manufacturing capacity and capability, we work with our wafer fab contract manufacturers and packaging and testing contract manufacturers to ensure that they are able to meet our needs. Therefore, by the time a purchasing order is placed we are able to acknowledge and confirm the availability of a product and are in a position to provide a schedule for delivery.

MANUFACTURING

All of our ICs are designed by our engineers and designers in-house. As stated in “— Our Business Model,” the manufacturing process of our ICs are outsourced to our contract manufacturers, which are broadly divided into two groups in accordance with the two main stages of IC manufacturing: wafer manufacturing and packaging and testing.

Wafer Manufacturing

Wafer manufacturing is a highly capital-intensive and complex operation which takes place at dedicated facilities commonly referred to as fabrication plants, or fabs. After we have produced a design and ordered a mask template to be prepared, the mask maker will deliver the mask to a contract manufacturer designated by us which operates a fab. Currently United Microelectronics Corporation (based in Taiwan) accounts for the majority of our wafer purchases. We also purchase wafers from Hynix Semiconductor Inc. (based in South Korea), CSMC Manufacturing Co., Ltd. (based in Hong Kong) and Hejian Technology (Suzhou) Company Limited (based in the PRC). As disclosed in “Risk Factors,” United Microelectronics Corporation is our largest supplier of wafers. We consider that if the capacity from United Microelectronics Corporation were to be reduced or cease altogether, the Group would be affected in the short term due to the need to qualify alternative foundries to produce the ICs formerly produced by United Microelectronics Corporation. However, we believe that medium-term effects would be minimal as since 2002 we have already sought to reduce dependence on United Microelectronics Corporation by employing two foundries to produce high-volume and key products rather than rely on only one supplier. We continuously explore opportunities to work with other partners to complement our future growth, but we expect this to be a gradual process given that we are extremely selective in our choice of foundries. Selection criteria include quality, capacity, location, infrastructure, intellectual property protection, cost, service and technological capability. We currently have no plans to make equity investment in fabs but we do not preclude the possibility that we will do so in the future when suitable opportunities arise.

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Below is a table which sets out the commencement date of our relationship with each of our key wafer suppliers.

Supplier	
United Microelectronics Corporation	1999
Hynix Semiconductor Inc.	2000
CSMC Manufacturing Co., Ltd.	2000
Hejian Technology (Suzhou) Company Limited	2003

Packaging and Testing

After we receive the completed wafers, we further subcontract the manufacturing process to packaging houses. These specialist factories plate gold bumps on each wafer and conduct wafer probing before cutting each wafer into individual silicon chips, or dice, each containing a complete IC. The dice are then mechanically bonded to input/output leads and encapsulated in epoxy resin, resulting in the desired package shape. At this point the IC is effectively finished, pending electrical testing. Currently, we have more than ten packaging and testing contract manufacturers, each of which is responsible for a different stage of manufacturing. As we outsource both the wafer manufacturing, packaging and testing process, we do not have substantial capital expenditures for production of our ICs. However, we invest in and consign certain equipment for use in packaging and testing. This alleviates capacity bottlenecks and is part of a process development exercise with our contract manufacturers. These equipment, though used within our contract manufacturers' premises, are dedicated to the manufacturing of our products. We have engineers who review regular reports on the output of our equipment and who visit the site to ensure that our equipment are properly employed and maintained.

Currently, we have more than ten packaging and testing suppliers, the top three (by purchases) of which are Chipbond Technology Corporation, Wus Microelectronics Co., Ltd. and King Yuan Electronics Co. Limited.

Below is a table which sets out the commencement date of our relationship with each of our key packaging and testing suppliers.

Supplier	
Chipbond Technology Corporation	1999
Wus Microelectronics Co., Ltd.	1999
King Yuan Electronics Co. Limited.	1999

At 31 December 2003, 2002 and 2001, we had accounts payable of US\$18.5 million, US\$10.6 million and US\$3.3 million, respectively, representing an increase of US\$7.9 million, or 75%, in Fiscal 2003 compared to Fiscal 2002 and an increase of US\$7.3 million, or 221%, in Fiscal 2002 compared to Fiscal 2001. The creditors' turnover days for Fiscal 2003, 2002 and 2001 were 62 days, 64 days and 32 days, respectively. Most of our suppliers offer us 60 days trade credit. The exceptionally low creditors' turnover days in 2001 was due to an accelerated payment to the suppliers on the last active business day of 2001 in order to gain goodwill from suppliers.

Inventories

We believe that an effective inventory control system is important to our operations. As at 31 December 2003, 2002 and 2001, we had inventories of US\$13.1 million, US\$5.0 million and US\$3.2 million,

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respectively, representing an increase of US\$8.1 million, or 162%, in Fiscal 2003 compared to Fiscal 2002 and an increase of US\$1.8 million, or 56%, in Fiscal 2002 compared to Fiscal 2001. The inventories turnover days for Fiscal 2003, 2002 and 2001 were 43.7 days, 30.2 days and 31.3 days respectively. We built up our inventories as at 31 December 2003 to fulfil shipment requirements for early 2004.

Quality Control

In recognition of our quality control standards, we received an ISO 9001 certification for design, development and sales of semiconductor products from the British Standards Organisation in 2000, which was upgraded to an ISO 9001:2000 certification in 2002. We also have several quality control programmes in place to address potential problems and to improve the general quality of our products.

We adopt a variety of quality management and quality control procedures in order to ensure the timely delivery of high quality products which meet or exceed customer's expectations. Our quality management and quality control procedures begins with the pre-fabrication process, where we work with our contract manufacturers to ensure the consistency and quality of the manufacturing process. Contract manufacturers send daily work-in-progress reports and yield data to us for review on a regular basis. We host manufacturing meetings daily to review such data and send relevant instructions to our contract manufacturers to ensure a smooth product flow. Our quality management team makes frequent visits to each of our contract manufacturers in order to closely monitor and review the production process, ensure the quality of the product and to follow up on outstanding discrepancy action items in the manufacturing process. To maintain a high quality of testing and verification, our engineers develop sophisticated software testing programmes used in the wafer probe and final testing. We have engineering testers located at our headquarters which we use to generate original test packages comprising a complete set of software, hardware and correlation wafer.

We monitor the performance and reliability of our products. Customer feedback and our own internal reviews are used to ensure that our operations are being run in an efficient and effective manner. We have implemented procedures designed to incorporate our industry partners into the qualification process of our new products and manufacturing technologies in order to accelerate time to market and, at the same time, ensure that our products meet all product specifications as well as industry standards. Our products are only delivered to customers after they have demonstrated conformity with all specified quality requirements.

COMPETITION

Although actual authoritative data is limited, we believe that the worldwide display IC industry is currently concentrated in three Asian countries: Japan, South Korea and Taiwan. Historically, Japanese vendors have dominated the display IC industry as they were the first to adopt flat-panel display technology such as LCD in the information technology and consumer electronics industry. They adopt a vertically integrated strategy with the development and production of display ICs, often together with the production of display panels and other components within a display module unit. The leading Japanese vendors are Hitachi, NEC, Epson, Matsushita, Toshiba, Sharp and others. They typically supply the majority of their display IC products to their affiliated companies. Korean and Taiwanese vendors were later entrants into the market. Korean vendors such as Samsung and LG Electronics adopt an approach similar to the Japanese in terms of vertical integration through their affiliates and subsidiaries. Taiwanese vendors were the last of the three participants to penetrate the industry. In contrast to the Japanese and Korean strategy of vertical integration, most Taiwanese vendors are fabless companies with only loose partnerships with display panel makers. As Taiwan increased its LCD panel production during the last three years, those IC design companies have quickly expanded their display IC products to respond to the increasing demand and trend of local procurement. The leading Taiwanese display IC makers include Novatek, Myson and Weltrend. They typically supply their display IC products to third-party display module makers and brand owners.

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For individual types of mobile display ICs we compete primarily with Taiwanese, Japanese and South Korean display IC manufacturers such as Samsung and Seiko Epson. As we expand into new markets we expect the competition to intensify. Our potential competitors for large panel TFT-LCD display ICs may include Novatek and Samsung. Some of these companies have substantially greater financial and other resources than us. We believe that we compete primarily on the basis of product features, time to market, services and cost. Given that there are many apparently captive suppliers (suppliers which primarily supply to one customer) in this highly fragmented industry due to the diversity of end-application markets, we consider that it is not possible to define the overall size of the market and hence the market shares of our competitors. However, based on our improving turnover and profits since 2001 and the other products being used by brand owners, we believe that our products are competitive. As there is no centralised consolidated data for the display IC industry, our senior management believes from experience that

- in terms of technology, the Group's products contain as many features as its closest competitors (in particular, the Group believes that most of its current competitors do not have the same expertise in mixed signals product design);
- in terms of product reliability and compatibility, the Group's ability to field application engineers on-site provides a valuable service to its end customers; and
- in terms of pricing, the benefits of using the Group's products as set out above ensures that the Group's products remain economically competitive.

CUSTOMERS AND CONTRACT MANUFACTURERS

Our five largest customers (of which three are distributors and two are brand owners or display module makers) accounted for 72.2%, 77.3% and 79.8% of our total sales for each of the three years ended 31 December 2003. Our single largest customer (a distributor) for each year accounted for 23.5%, 34.6% and 21.9% of our total sales for each of the three years ended 31 December 2003. Of our top five customers for the year ended 31 December 2003, three of such customers are our regional and global distributors. The above statistics have been compiled on the basis of direct sales invoices and do not reflect our sales and marketing focus. Despite the apparent concentration of sales to regional and global distributors, our key customers from a sales and marketing perspective remain the brand owners and display module makers who purchase our display ICs from distributors. Our display ICs are technological products which we believe are distinguished by competitive features (see "— Products — Current Product Offerings — Mobile Displays") and from our co-development experience we believe brand owners and display module makers make their purchasing decisions not on the basis of the identity of the distributor but on their assessment of the advantages of our product over our competitors. As set out in "Sales and Marketing," our distributors help us in our dealings with brand owners and display module makers, especially in relation to organising logistics such as product shipments and trade financing. By transferring the responsibility of shipping our display ICs to brand owners and display module makers, we do not need to expend our own resources to monitor the transport process. By handling the direct sales of display ICs to brand owners and display module makers, our distributors assist us by offering more flexible credit terms to brand owners and display module makers (compared to the terms which we offer distributors) and by keeping inventories of products (which we do not typically undertake).

As set out in "Business" generally and more specifically in "— Sales and Marketing — Co-Development" and "— Customers and Contract Manufacturers", we have strong relationships with certain key brand owner customers. Despite our long standing business relationship with such customers, we do not believe that this relationship presents a risk factor for us if the market share of any such customers were to decrease because:

- (i) as the total market for cellular phones is increasing every year, a decrease in any one customer's market share may not result in it reducing its absolute uptake of ICs from the Group and the Group's share of display IC shipments within that one customer may even increase;

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- (ii) the Company is free to supply display ICs to any brand owner;
- (iii) any reduction in IC uptake from any one customer may be offset by an increase in uptake from other brand owners who have gained market share at that one customer's expense; and
- (iv) based on its improving turnover, shipment quantity and profits since 2001, we believe that we are one of the few independent IC producers which is highly regarded for its products and we would be able to find alternative customers.

Please also refer to "Risk Factors — Risks Relating to our Business — We depend on a few brand owners for a significant portion of our revenues" for a general discussion on risks relating to our dependence on a few brand owners.

Our five largest contract manufacturers accounted for approximately 91.1%, 87.4%, and 84.5% of our total purchases for each of the three years ended 31 December 2003. Our single largest contract manufacturer for each year accounted for 53.1%, 53.6% and 60.4% of our total purchases for each of the three years ended 31 December 2003.

Save as disclosed in this prospectus, to the best of the Directors' knowledge, none of the directors of the Group, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the above mentioned customers or contract manufacturers.

REAL ESTATE

We do not own any real estate. Our headquarters, located at the Hong Kong Science Park, is leased from Hong Kong Science and Technology Parks Corporation. The other members of our Group also lease their office premises.

RELATIONSHIPS BETWEEN THE GROUP AND CERTAIN OF ITS SHAREHOLDERS AND/OR THEIR ASSOCIATES

Relationships with the Quanta Group

As at March 2004, Mr. Lam Pak-Lee ("Mr. Lam") (the non-executive Chairman of the Company) directly held approximately 3.4% and will (following the completion of the Global Offering, but assuming that the Over-allotment Option is not exercised) hold approximately 2.9% of our total issued shares; Mr. Lam had a 5% interest in Global Vision Venture Capital Co. Ltd ("Global Vision") which in turn held approximately 7.4% and will (following the completion of the Global Offering, but assuming that the Over-allotment Option is not exercised) hold approximately 6.3% of our total issued shares. (Global Vision is one of the eight venture capital funds invested in our Company and is managed by China International Development Consulting, Inc. ("CIDI"), a Taiwan based venture capital management firm. For further information relating to CIDI, see "Business — Relationship with CIDC Funds" below).

As at March 2004, Mr. Lam and his immediate family together held approximately 19.6% of Quanta Computer's total issued shares; and Mr. Lam is a director, and his spouse is a supervisor, of Chien Yu Investment Co. Inc. ("Chien Yu Investment") which in turn had an approximately 16.4% holding in Quanta Computer. Mr. Lam and his immediate family are together interested in approximately 31.5% of Chien Yu Investment. Mr. Lam is the Chairman and CEO of Quanta Computer.

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In addition, as at March 2004, according to information provided by Quanta Computer and publicly available information, Quanta Computer held approximately 24.2% of Quanta Display's total issued shares; Mr. Lam directly and indirectly (through various investment companies controlled by him) were interested in approximately 5.5% of Quanta Display's total issued shares, and Chien Yu Investment was interested in approximately 4.5% of Quanta Display's total issued shares. Mr. Lam is the Chairman and President of Quanta Display. (See also "Business — Relationship with the Quanta Group and CIDC Funds in respect of the establishment of WE3 Technology Company Limited" below for further details.)

Relationships with Wintek Technology (Cayman) Corporation and Wintek (B.V.I.) Corporation

As at March 2004, Wintek Technology (Cayman) Corporation and Wintek (B.V.I.) Corporation (both of which are subsidiaries of Wintek Corporation) were interested in approximately 4.3% and 4.0%, respectively, and will (after the completion of the Global Offering and assuming the Over-allotment Option is not exercised) hold approximately 3.0% and 2.8%, respectively, of our total issued shares.

These shares were obtained through an investment in Solomon Systech Limited by acquiring shares in Solomon Systech Limited sold down by subsidiaries of Solomon Technology Corporation. We understand that certain of our display ICs for mobile devices have been on-sold by our distributors to Wintek Corporation and/or certain of its subsidiaries (the "Wintek Group"). Wintek Corporation is based in Taiwan and its shares are listed on the Taiwan Stock Exchange Corporation. The Wintek Group is engaged, among others, in the manufacture of mobile device display modules for mobile device manufacturers.

Relationship with Ms. Cheng Siu-ang and Solomon QCE Limited

As at March 2004, Ms. Cheng Siu-ang was interested in approximately 5.2% and will (after the completion of the Global Offering and assuming the Over-allotment Option is not exercised) hold approximately 4.0% of our total issued shares. As at March 2004, Ms. Cheng Siu-ang and her spouse (Mr. So Pak Wing) held an aggregate of approximately 30% of the total issued shares, and were directors, of Solomon QCE Limited. Mr. So is also the Chairman of Solomon QCE Limited. Solomon QCE Limited was one of the top ten customers of the Group in the financial year ended 31 December 2003.

Relationship with CIDC Funds

China Power Venture Capital Co., Ltd, Global Vision Venture Capital Co., Ltd., China International Investment Co., Ltd., CAM-CID Asia Pacific Investment Corp., Nien Hsing International Investment Co., China Century Venture Capital Co., Ltd., J&D Capital Corp. and A&D Capital Corp. (the "CIDC Funds"), being our existing shareholders, are venture capital funds managed by China International Development Consulting, Inc. ("CIDI"). CIDI is a Taiwan-based venture capital firm. Based on its published information, CIDI has invested in over 25 companies across Asia ranging from IC testing and assembly to component manufacturers for the telecommunication market, online role playing gaming and on-line advertising systems. Though the majority of its investments are located in Taiwan, it also has investments in the United States, Korea and the PRC. The CIDC Funds generally invest in high-technology businesses and have made investments in several other companies principally engaged in businesses similar to that of the Group. According to information provided by CIDI, the total value of the CIDC Funds is approximately US\$180 million.

Mr. Chang Ching-Yi, Steven, a non-executive director of the Company, is the Managing Partner of CIDI and was, as at March 2004, interested in approximately 1% of the issued shares of China Power Venture Capital Co., Ltd, approximately 1.7% of the issued shares of CAM-CID Asia Pacific Investment Corp. and approximately 1.2% of the issued shares of J&D Capital Corp., each of them being a CIDC Fund. In addition, Mr. Lam Pak-Lee, the non-executive chairman of the Company, was, as at March 2004, interested in approximately 5% of the issued shares of Global Vision Venture Capital Co., Ltd., being a CIDC Fund. As

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at March 2004, the CIDC Funds were, in aggregate, interested in approximately 25.2% of our total issued Shares. Following the completion of the Global Offering, the CIDC Funds will be, in aggregate, interested in approximately 21.4% of our total issued Shares (assuming that the Over-allotment Option is not exercised).

Relationship with the Quanta Group and CIDC Funds in respect of the establishment of WE3 Technology Company Limited

In March 2004, the Company, through one of its subsidiaries, Ample Pacific Limited, subscribed for shares in WE3 for approximately US\$1.3 million. The Group is expected to hold 20% of the issued share capital of WE3. The co-investors of WE3 are expected to include the Quanta Group (holding 40%), CIDC Funds (holding 20%) and certain employees of WE3 (holding 20%). WE3 is principally engaged in the provision of wireless system integration services.

LOCK-UP ARRANGEMENTS AND NON-DISPOSAL UNDERTAKINGS

Non-disposal undertakings under the Reorganisation

Under the Reorganisation, each of our current Shareholders has undertaken to the Company not to dispose of or encumber its/his/her Shares during a period from the date on which the Shares were allotted and issued to them under the Reorganisation to the date falling six months after the Listing Date, other than such Shares which may be acquired under the Global Offering or after the Listing Date and/or where written prior consent of the Company (for itself and as trustee of the Sponsor) has been obtained. Our current Shareholders who are also Selling Shareholders are expected to give a similar undertaking to the International Underwriters pursuant to the International Underwriting Agreement (see "Underwriting — Underwriting Arrangements and Expenses — Public Offering — Undertakings").

Lock-up arrangements and non-disposal undertakings under the share-based remuneration schemes

Pre-IPO Loyalty Plan

Under the Pre-IPO Loyalty Plan, each of the beneficiaries will be subject to lock-up for a period from the vesting date up to four years after the Listing Date. During the said lock-up period, the Shares will be held by the Custodian. 100% of the award Shares will be locked up from the vesting date up to (but excluding) the date of the first anniversary of the Listing Date; 25% of such Shares will be released from the lock-up upon the first anniversary of the Listing Date; and with respect to the remaining 75% of such Shares, they will continue to be subject to the lock-up and will only be released from the lock-up in three equal tranches on each of the subsequent anniversaries of the Listing Date. However, if any beneficiary of an award of Shares shall cease to be an officer or employee of any member of the Group before expiry of the relevant lock-up period, his award Shares still subject to lock-up will be transferred and sold to the Trustee (for a nominal consideration), and the Trustee will allocate such Shares on a pro-rata basis to the other beneficiaries (who remain under the employ or otherwise being officers of any member of the Group) under the Pre-IPO Loyalty Plan.

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Pre-IPO Stock Reward Scheme

Under the employee share reward plan adopted by Solomon Systech Limited (which is part of the Pre-IPO Stock Reward Scheme), each of the beneficiaries has:

- (i) undertaken to Cardio Investments Limited, the trustee under the plan, not to dispose of or encumber his/her award Shares during a period from the date on which the award Shares were issued to Cardio Investments Limited to the date falling twelve months after the Listing Date; and
- (ii) granted a call option to Cardio Investments Limited in respect of their respective award Shares exercisable by Cardio Investments Limited in whole for the total consideration of HK\$1.00 for all of their respective Shares in the event that his/her engagement or employment with the Group ceases within the said period.

Pre-IPO Share Purchase Scheme

Under the Pre-IPO Share Purchase Scheme, each of the beneficiaries has agreed that the relevant award Shares shall be subject to a lock-up period from the date of vesting to a date falling twelve months after the Listing Date. During the said lock-up period, the Shares are held by Cardio Investments Limited as trustee for the beneficiaries. On expiration of the said lock-up period, the relevant Shares will be transferred to the relevant beneficiaries.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

A detailed description of our near term product development plans is set out in “Business — Products — Products Under Development.” With respect to longer term research possibilities:

- **Mobile Devices.** We expect that communication, organiser, multimedia and gaming functions will gradually converge within the mobile device market. In order to expand our role in this converging multimedia handset/handheld market, we plan to develop mobile device display ICs with integrated multimedia controllers which integrate both display and non-display functions (e.g. audio) into a single chip.
- **Large Panel TFT-LCDs.** We believe that TFT-LCD displays will become increasingly popular with consumers as further improvements in manufacturing processes reduce average unit prices. After we launch our large panel TFT-LCD driver ICs, we plan to explore the development of advanced display ICs such as timing controllers and display interfaces.
- **Emerging Technology Displays.** As new display technologies emerge, we intend to work with technology leaders to explore new applications and be among the first companies to offer commercial display ICs for new display applications and technologies. For example, we were among the first display IC producers to provide display IC solutions for OLED and we are now working closely with microdisplay and E-paper manufacturers to explore new application markets.

As we expand, we believe that securing supply capacity will be important to our future success. To secure capacity, we intend to undertake the following:

- Work closely with our contract manufacturers on the development of advanced manufacturing processes, thereby further improving productivity and cost efficiencies.
- Continue to invest in production equipment and equipment for use in product development.
- Consider other methods of securing longer term capacity.
- Update our integrated, company-wide, real-time information system in line with our growth to allow us to better collect, manage, analyse and utilise information in our business operations.
- Partner with contract manufacturers to complete regional supply chains in strategic locations to shorten the cycle time for manufacturing our products and to reduce logistics costs.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.825 per Share, being the mid-point of the proposed Offer Price range of HK\$1.60 to HK\$2.05 per Share) will be approximately HK\$589 million (HK\$750 million, if the Over-allotment Option is exercised in full). We currently intend to use these net proceeds for our current and future product development and for general corporate purposes — see “Business — Products — Products Under Development” and above “— Future Plans.” Specifically, we intend to apply these net proceeds in the following manner (although these amounts may change for business reasons or otherwise):

- 30% towards product research and development (the majority of which will be applied towards product development such as a more advanced OLED display IC based on LTPS technology, a full portfolio of TFT-LCD display ICs for cellular phones, multimedia processors which will address audio and video functionalities, an image processor which will enable mini-cameras to interface with the other components of a mobile device, large panel LCD display ICs and display ICs for new display technologies);

FUTURE PLANS AND USE OF PROCEEDS

- 30% towards investment in securing capacity (such as purchasing and consigning critical packaging and testing equipment in cooperative arrangements with contract manufacturers, using more guaranteed uptake arrangements with suppliers or making equity investment in our suppliers in the future if suitable opportunities arise);
- 10% towards operational infrastructure for expansion (including entering into new leases, setting up new overseas offices and purchasing IT equipment and software such as Enterprise Resource Planning System); and
- 30% towards working capital and other general corporate purposes (including corporate housekeeping and general administration).

As at the Latest Practicable Date, we had no committed expenses for product research and development. The investment in WE3 as described under “Business — Design and Development — Research and Development” will not be funded by the proceeds from the Global Offering.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing bank accounts.

We will issue an announcement in Hong Kong if there is any material change in the above proposed use of proceeds. We will also update the prospectus if there is a material change in our proposed use of proceeds during the Global Offering period.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS AND SENIOR MANAGEMENT

Information concerning our Directors and senior management is set forth below:

Directors

Leung Kwong Wai, aged 47, Managing Director

Mr. Leung was appointed to the Board on 21 November 2003 and has been the President of Solomon Systech Limited since its inception in 1999. Prior to 1999 he was the Director of Operations of Motorola Semiconductors Hong Kong Limited. He graduated from the Hong Kong Polytechnic in Electronic Engineering and received a MSc in Industrial Engineering from the University of Hong Kong. He also obtained a Diploma in Management Studies jointly organised by the Hong Kong Management Association and the Hong Kong Polytechnic and qualified as a chartered electrical engineer with the Institution of Electrical Engineers and is currently a member with the Hong Kong Institution of Engineers. He is the Director of the Society for Information Display, Hong Kong Chapter and Vice-chairman of Hong Kong Electronics Industry Council of Federation of Hong Kong Industries and executive committee member of Hong Kong Electronic Industries Association. Mr. Leung received the Young Industrialist Award of Hong Kong in 2001 and the Outstanding Polytechnic University Alumni Award in 2003.

He was one of the first few IC designers who started the IC design industry in Hong Kong towards the end of the 1970s. He worked in Silicon Valley of California as an IC designer from 1979 to 1980 and worked in the Motorola Inc. wafer fab in Austin, Texas from 1994 to 1996. During his 15 years in Motorola Inc., he managed the business of IC products such as logic, ASIC, telecoms, DSP and display. His last functional role in Motorola Inc. was to manage global teams to develop new products and businesses and in particular, the display IC business of Motorola was under his responsibility.

He has 19 years of global management experience and 24 years of working experience in the semiconductor industry covering IC design, wafer fabrication, engineering, manufacturing and marketing.

Huang Hsing-Hua, aged 45, Executive Director

Mr. Huang was appointed to the Board on 3 February 2004 and has been a director of Solomon Systech Limited since January 2001. He joined Solomon Systech Limited in March 2003 as Sales Director and is responsible for sales, market development and field application support. He graduated from the Hua-Shia Industrial Technology Institute with a Professional Diploma. He worked in Motorola Inc. for 11 years covering functions such as product marketing, planning, sales and business operations. His last functional role in Motorola in 1999 was as Operation Manager managing memory IC products for the Asia Pacific region. Prior to joining the Company he was a Senior Vice President of Solomon Technology Corporation.

He has 19 years of management experience and 23 years of working experience in the electronics industry.

Lai Woon Ching, aged 50, Executive Director

Mr. Lai was appointed to the Board on 25 February 2004 and has been the Quality and Manufacturing Director of the Group since its inception in 1999 and is responsible for quality assurance, sub-contractor management and manufacturing technology. Mr. Lai obtained a MSc in Engineering from the Hong Kong University and qualified as a chartered electrical engineer of the Institution of Electrical Engineers. He was the Senior Quality Manager of Motorola Semiconductors Hong Kong Limited before joining the Group. He led the team which established the manufacturing of VLSI IC products in various new packaging and testing in Motorola Semiconductors Hong Kong Limited and also led the inception of MCU manufacturing and testing in Motorola's semiconductor operations in Tianjin.

He has 23 years of management experience with expertise in IC production and testing.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Lo Wai Ming, aged 41, Executive Director

Mr. Lo was appointed to the Board on 25 February 2004 and has been the Business Operations Director of the Group since its inception in 1999 and is responsible for product engineering, test engineering, product marketing, product application and corporate communications. He received a MSc in Electronics Engineering from the Hong Kong Polytechnic University, and qualified as a chartered electrical engineer with the Institution of Electrical Engineers. He is also a member of the Hong Kong Institution of Engineers. Before joining the Group he was the Business Operations Manager in Motorola Semiconductors Hong Kong Limited where he led the display IC product engineering team and was responsible for all new display IC products development and introduction.

He has 13 years of management experience and 17 years of working experience in the semiconductor industry with a focus on new product and business development.

Lam Pak-Lee, aged 54, Non-executive Chairman

Mr. Lam was appointed to the Board on 25 February 2004. He received his Bachelor and Master degree from National Taiwan University. Mr. Lam is the Chairman and CEO of Quanta Computer, which he founded in 1988. Quanta Computer is the largest notebook computer manufacturer in the world, with manufacturing operations spanning Europe, the PRC, Taiwan and the US. In 1999 and in 2001, Mr. Lam was chosen by Business Week as one of the fifty "Stars of Asia." In 2002, he was highlighted on Business Week's list of the top 25 managers of the year.

He has more than 25 years of management experience in PC and TFT-LCD panel manufacturing.

Chang Ching-Yi, Steven, aged 42, Non-executive Director

Mr. Chang was appointed to the Board on 21 November 2003 and has been a director of Solomon Systech Limited since December 2002. He received his Bachelor degree from National Chung Hsin University and his MBA from National Cheng-Chi University. Mr. Chang is the Chairman and Chief Executive Officer, as well as the founding partner, of China International Development Consulting, Inc., a venture capital fund based in Taiwan. Prior to setting up China International Development Consulting, Inc. in 1998, he was a Vice President of the Investment Department of the China Development Industrial Bank, which is based in Taiwan.

He has 13 years of management experience in managing investments in the semiconductor industry.

Wong Yuet Leung, Frankie, aged 55, Non-executive Director

Mr. Wong was appointed to the Board on 3 February 2004 and has been a director of Solomon Systech Limited since June 2002. He obtained his B.Sc. (Econ) from the London School of Economics and Political Science and M.A. (Econ) from the University of Lancaster. He is the Managing Director of Shui On Holdings Ltd. and also Vice Chairman of Shui On Construction And Materials Limited, a subsidiary of Shui On Holdings Ltd. listed on the Stock Exchange and comprising the construction and construction materials businesses of Shui On Holdings Ltd. and its subsidiaries.

He has more than 28 years of management experience.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent Non-executive Directors

Choy Kwok Hung, Patrick, aged 61

Mr. Choy was appointed to the Board on 25 February 2004. He obtained his Diploma in Chinese Law from East Asia University. Mr. Choy founded and is currently the chairman of Global Strategy Company Limited and its subsidiary companies, which provide media, property and consulting advisory services. Prior to founding Global Strategy Company Limited, Mr. Choy was the Corporate Vice President & Director of Strategic Finance (Asia Pacific) of Motorola Inc.

The PRC Government appointed Mr. Choy as a member of the Chinese People's Political Consultative Conference (CPPCC) National Committee, the top consultative and supervisory organisation to the PRC Government, for a 5 year term from 2003. Mr. Choy is also a Standing Committee member of the CPPCC of Tianjin, the PRC.

He has more than 30 years of management experience.

Sun, Patrick, aged 45

Mr. Sun was appointed to the Board on 25 February 2004. He obtained his B.Sc. Degree from The Wharton School, University of Pennsylvania and completed Stanford Business School's Stanford Executive Program. He is also a member of the Hong Kong Society of Accountants. Mr. Sun is currently the Chairman of the Global Strategy Committee of Kingsway International Holdings Limited (a financial services company listed on the Toronto Stock Exchange), the Honorary Chief Executive Officer of The Chamber of Hong Kong Listed Companies and the Vice Chairman of Nexcel Limited. He was previously the Senior Country Officer, Hong Kong and Head of Investment Banking for Hong Kong of JPMorgan. Prior to that, he was a Group Executive Director and Head of Investment Banking — Greater China of Jardine Fleming Holdings Limited. Mr. Sun was formerly the Deputy Convenor of the Listing Committee and a member of the Council of The Stock Exchange of Hong Kong Limited.

He has more than 18 years of experience in investment banking.

Kao Kuen, Charles, aged 70

Professor Kao was appointed to the Board on 15 March 2004. He obtained both his B.Sc and Ph.D in electrical engineering from the University of London. He is also a member of the Institution of Electrical Engineers in Hong Kong, United Kingdom and the United States and was previously Chairman of the Energy Advisory Committee in Hong Kong. Professor Kao is currently the Chairman and Chief Executive Officer of ITx Services Limited and was previously the Chairman and Chief Executive Officer of Transtech Services Limited, both being consultation service and technical advice telecommunication companies in Hong Kong. Prior to that he was the Vice-Chancellor at The Chinese University of Hong Kong and he started his career at ITT Corporation (a telecommunication company in the United States). Professor Kao pioneered the research of and was involved in the subsequent development of optical fibre communication transmission systems and has received numerous awards recognising this across Hong Kong, United Kingdom, the United States, Italy, Sweden and Japan.

He has more than 46 years of experience in the telecommunications industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Senior Management Personnel

Lin Hsin-Yih, aged 58, Chairman and Executive Director of Solomon Systech Limited

Mr. Lin has been a director of Solomon Systech Limited since June 1999. Prior to 1999, he was a Vice President and Sales Director of the Asia Pacific Region for the Semiconductor Component Group of Motorola Inc.'s Semiconductor Sector. He received his Bachelor Degree in Electrical Engineering from Cheng Kung University in Taiwan. He also worked for Motorola Inc.'s Semiconductor Products Sector in Taiwan, U.S., and Hong Kong for over 25 years with responsibility mainly in sales and marketing management. He was the chief executive officer of Solomon Technology Corporation for over 4 years before his retirement in mid 2003.

He has 32 years of experience in the electronics industry.

Lai Wai-Yan, Stephen, aged 57, Design Director

Dr. Lai has been the Design Director of the Group since its inception in 1999 and is responsible for system engineering, IC design and new technology. He graduated from the University of Hong Kong with a B.Sc. in electrical engineering and received a M.S.E.E. and Ph.D. in electrical engineering (Solid State Technology) from Syracuse University. He started his semiconductor career in device and process engineering at General Electric and in failure analysis at Sperry Support Services at Goddard Space Flight Center. He joined Motorola Inc.'s MOS Division in 1977 as a manager of the Product Analysis Laboratory in Austin, Texas, for semiconductor development. He became a Design Manager at the ASIC Division in 1985 at Chandler and a member of the technical staff at the Analog IC Division in 1993 at Tempe, Arizona. Prior to joining the Company, he was the Design Manager at the display IC division at Motorola Semiconductors Hong Kong Limited.

He has 30 years of experience in semiconductors and integrated circuits which include technology and product development and management, systems and circuits, design and characterisation, process and device research and development, design methodology and automation, and analytical instrumentation and semiconductors reliability.

Lui Kit Har, Keziah, aged 43, Finance Director

Ms. Lui joined the Group in 2000 as Finance Director and is responsible for accounting, financial management, internal controls, credit control and treasury. She graduated from the Hong Kong Polytechnic with a Professional Diploma in Management Accountancy. She is an associate member of the Institute of Chartered Company Secretaries & Administrators, and a fellow member of the Hong Kong Society of Accountants, and the Chartered Institute of Management Accountants. Prior to joining the Company, she held managerial positions in Motorola Semiconductors Hong Kong Limited and Arthur Andersen & Co and was the financial controller of Centralab (Hong Kong) Ltd, a division of Philips Passive Components from 1997 to 1999.

She has 14 years of management experience, with a focus on financial management and control.

Cheung Hung Fai, aged 44, Senior Planning and Customer Services Manager

Mr. Cheung joined the Group in 2000 as Senior Planning Manager and is responsible for planning and logistics, customer services and information technology. He received a MSc in Business Engineering from Hong Kong Polytechnic University and Warwick University and a Diploma in Business Study from the Hong Kong Management Association. From 1990 to 1998 he worked for Motorola Semiconductors Hong Kong Limited as a Planning Manager leading a global team. Prior to joining the Company he was the Product Management Manager in Arrow Asia Pacific Limited.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

He has 15 years of management experience in production planning.

Chen Denkwei, Kevin, aged 49, Senior Business Development Manager

Mr. Chen joined the Group as Business Manager in 1999 and is responsible for market development in the United States. He obtained a MSc in Electrical Engineering from Pennsylvania State University. Before joining the Company, he worked in Motorola Inc. from 1984 and was transferred to Motorola Semiconductors Hong Kong Limited in 1995 to take up the role of Product Engineering Manager. Mr. Chen returned to Motorola Inc. in 1997 as the Product Manager, where he led new products development and introduction.

He has 19 years of engineering and management experience in the semiconductor industry with a focus on the US Market.

Lo Oi Yee, Mabel, aged 39, Human Resources Manager

Ms. Lo joined the Group in 2000 as Human Resources Manager and is responsible for recruitment and retention, compensation and benefits, training and staff development, employee relations and office security. She graduated from Hong Kong Polytechnic with a Diploma in Personnel Management, and qualified as a member of the Hong Kong Institute of Human Resources. Prior to joining the Company she was Assistant Personnel Manager in Gillette Hong Kong Ltd.

She has 6 years of management experience in human resources.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lui Kit Har, Keziah is the secretary of the Group and is also the Finance Director of the Group. She is a qualified accountant and a Fellow of the Hong Kong Society of Accountants. Ms. Lui is a "Qualified Accountant" of the Company for the purposes of Rule 3.24 of the Stock Exchange Listing Rules.

BOARD PRACTICES

In the absence of extraordinary events, it is the practice of the Board of Directors to meet at least once every quarter. At such meetings, the Directors conduct an operational review of the business of the Company, among other things.

AUDIT COMMITTEE

The Company established an audit committee on 19 March 2004 with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 to the Stock Exchange Listing Rules.

The audit committee has 3 members comprising Wong Yuet Leung, Frankie, Choy Kwok Hung, Patrick and Sun, Patrick. The chairman of the audit committee is Wong Yuet Leung, Frankie.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Company is responsible for determining the salaries and compensation package of the Directors and senior management personnel. A majority of the votes in the committee are exercisable by independent non-executive Directors.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at 19 March 2004, the Group had 156 full-time employees. The following table shows a breakdown of employees by function as at 19 March 2004:

Quality and Manufacturing	Human Resources Administration and Business Support	Planning and Customer Services	Sales and Marketing	Design and Engineering	Total
17	20	7	21	91	156

All employees of the Group are employed under employment contracts which specify, amongst other things, the employee's responsibilities, remuneration and grounds for termination of employment. Each employee of the Group agrees to certain confidentiality provisions in respect of the Group's intellectual property rights.

Remuneration of the Group's employees includes basic salaries and bonuses. The Group has incurred staff cost of approximately US\$4.0 million, US\$5.1 million and US\$10.4 million for the three years ended 31 December 2003, representing 10.8%, 8.6% and 9.5% of the Group's turnover for those periods.

TRAINING

We provide formal and informal training and development opportunities to all employees for the purpose of enhancing their professional capabilities and personal development. Our training programmes include technical workshops, quality control training and personal development courses. In order to employ our training resources effectively, we develop training workshops and collaboration programmes with local universities and overseas professionals.

PERFORMANCE ASSESSMENT AND COMPANY FEEDBACK

We have a formal system of performance assessment. Employees and supervisors are given opportunities for appraising individual work accomplishments relating to prescribed performance expectations, attending to areas for improvement and developing individual training plans.

Employee performance assessment is closely tied to our performance indices, which are established at the beginning of the year and tracked throughout the operational year. The Company's performance as a whole is reviewed and communicated to all employees at quarterly employee communication meetings.

SHARE-BASED REMUNERATION SCHEMES

We believe in incentivising, retaining and rewarding employees, and attracting new talent, through share based incentives which will align their interests with that of our Company. To this end, we currently have the following six share-based remuneration schemes, of which grants of awards or options may continue after the Listing under two of them (namely, the Share Option Scheme and the Share Award Plan, together the "Continuing Schemes"), whereas awards and grants of options have been made or offered under the other four schemes (namely, the Pre-IPO Stock Reward Scheme, the Pre-IPO Share Purchase Scheme, the Pre-IPO Loyalty Plan and the Pre-IPO Share Option Scheme, together the "Pre-IPO Schemes") and no further awards or grants of options will be made or offered under them.

There is currently no recognition and measurement requirements for the issuance of shares to employees through capitalisation of retained earnings specified under the Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. Accordingly, at the time of the issuance of shares to the employees of the Group under various share schemes, shares issued had been accounted for at their par value as a capitalisation of retained earnings in the financial statements.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

As at the Latest Practicable Date, approximately 90% of the Group's employees have interests (including Share awards subject to vesting and non-disposal undertakings under the Pre-IPO Schemes) in the shares of the Company.

Continuing Schemes

- **Share Option Scheme.** This scheme will be effective upon the Listing and potential participants include directors and employees of any member of the Group, as well as certain other persons which the Board considers have contributed or will contribute to the Group. Under this scheme, the maximum amount of options that may initially be granted, when aggregated with options granted under any other share option schemes for Shares (but excluding options granted under the Pre-IPO Share Option Scheme), cannot exceed 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange and any Shares which may be allotted and issued by the Company pursuant to the Over-allotment Option (subject to such 10% limit being refreshed at a Shareholders' meeting, and the overall 30% ongoing limit on all share option schemes as imposed by the Stock Exchange Listing Rules). Options under this scheme may only be granted after Listing.
- **Share Award Plan.** This plan has been adopted prior to the Listing, but no award of Shares has been made. Potential participants under this plan include officers and employees of the Group. There are currently 46,223,520 Shares held by the Trustee for the purpose of making awards under this plan. In the future, the Trustee will replenish this pool of Shares through, amongst other means, receiving money (representing discretionary bonus of the relevant recipients of awards) from the Company, which will be used to either subscribe for new Shares at par from the Company, or purchase Shares in the open market, provided that in any given financial year, the maximum number of Shares to be subscribed and purchased by the Trustee for such purpose will not exceed 2% of the total issued Shares of the Company as at the beginning of each such financial period. Accordingly, the Shares to be awarded to officers/employees of the Group under this plan will be at no cost to such officers/employees. The Shares to be awarded under this plan will be subject to a vesting period of up to two years from the date of the relevant award.

After the initial 46,223,520 Shares shall have been awarded to employees under the Share Award Plan, to the extent that the Trustee acquires Shares from the market at market price or subscribes for Shares from the Company at par value to satisfy the grant to officers/employees, the Group will account for such acquisition or subscription as expenses based on the actual consideration paid. Such new Shares subscribed by the Trustee at par value will cause dilution to the earnings per Share and net asset value per Share because of the increase in number of Shares outstanding after the issuance. While we cannot predict how and when SSAP may change, if SSAP in the future requires that issue of Shares to officers/employees must be expensed at fair value (i.e. at market price), the profitability of the Group will be reduced when the Shares are awarded to officers/employees under the Share Award Plan.

Pre-IPO Schemes

- **Pre-IPO Share Option Scheme.** This scheme has been conditionally adopted prior to the Listing and grants of share options to subscribe for a total of 6,300,000 Shares (representing approximately 0.3% of the total issued Shares immediately after the completion of the Global Offering and assuming that the Over-allotment Option is not exercised) at the Offer Price have been offered to specified directors of members of the Group. No further grants will be offered under this scheme, subject to, inter alia, the Stock Exchange granting listing of and permission to deal in the Shares to be issued under such options. The subscription rights attaching to options already granted will only be exercisable from the date falling twelve months after the Listing Date.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- **Pre-IPO Loyalty Plan.** This plan has been effective prior to the Listing and awards of Shares have been made to specified directors, senior management members and other employees of the Group. No further awards will be made under this plan. The Shares already awarded, aggregating 70,000,000 Shares (representing approximately 3.4% of the total issued Shares immediately before the completion of the Global Offering) have been issued and will be held by the Custodian subject to lock-up for a period from the date of the vesting up to four years after the Listing Date. As such award Shares were issued through capitalisation of retained earnings, they were given at no cost to the relevant recipients.
- **Pre-IPO Stock Reward Scheme.** Certain Shares awarded under the two plans of this scheme are currently held by two trustees for the recipients (being certain directors, senior management members and other employees of the Group) of such awards. No further awards will be made or offered under this scheme. Of the Shares held by the trustees, 56,450,000 Shares already awarded are subject to lock-up for a period of twelve months from the Listing Date, and 75,000,000 Shares are subject to a vesting period of up to two years from the date of the award. As such award Shares were issued through capitalisation of retained earnings, they were given at no cost to the relevant recipients.
- **Pre-IPO Share Purchase Scheme.** Grants of options to purchase Shares were made by certain Shareholders for the benefit of the employees of the Group. A condition of the scheme was that the Group would fund the exercise of such options under this scheme if the Group achieved certain financial targets. As the targets were met, the exercise of the options were funded by the Group and the awarded Shares have been vested since 9 February 2004 in the said employees. The cost for exercising these share options of approximately HK\$20,583,000 (including approximately HK\$8,004,000 paid for the Directors) has been charged to the consolidated profit and loss account for the year ended 31 December 2003. Such Shares, aggregating 118,290,250 Shares (representing approximately 4.6% of the total issued Shares immediately before the completion of the Global Offering), are held by a trustee and are subject to lock-up until twelve months after the Listing Date.

Details of the Company's share-based remuneration schemes are set out in the sections headed "Continuing Schemes" and "Pre-IPO Schemes" in Appendix IV to this prospectus.

Certain Shares awarded under the Continuing Schemes and the Pre-IPO Schemes are held by Cardio Investments Limited or the Trustee for the benefit of the employees of the Group. Mr. Leung Kwong Wai (our current president and Managing Director) is interested in approximately 33.33% of the issued share capital of Cardio Investments Limited.

The Group believes that based on the relatively low staff turnover compared with the growth in headcount and the fact that increasing headcount has not led to an increase in staff expenses as a percentage of turnover, the share based incentive plans are successful in incentivising (i.e. motivating the staff to achieve or surpass goals set by management and in helping the Group achieve its historical growth) and retaining employees.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

All our Directors receive reimbursements from us for expenses which are necessarily and reasonably incurred for providing services to our Company or in the execution of matters in relation to the operations of our Company. Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salaries, housing allowances, other allowances and benefits in kind, including our contribution to the mandatory provident fund for our executive Directors, in their capacity as our employees, according to Hong Kong employment law and company policies.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The aggregate amount of salaries, mandatory provident fund contributions, bonuses paid and other allowances and benefits in kind paid by us to our Directors during the three years ended 31 December 2001, 2002 and 2003 was US\$530,000, US\$713,000 and US\$1,905,000, respectively. The five highest paid individuals of our Company include three Directors whose aggregate compensation has been included in the aggregate compensation of our Directors above. Excluding the compensation of such Directors, the aggregate amount of salaries, housing allowances, mandatory provident fund contributions, bonuses paid and other allowances and benefits in kind paid by us to the two highest paid individuals of our Company during the three years ended 31 December 2001, 2002 and 2003 was US\$280,000, US\$344,000 and US\$581,000, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2001, 2002 and 2003, by us or any of our subsidiaries to our Directors. It is estimated that an aggregate amount of approximately HK\$5,600,000, including benefits and contributions but excluding discretionary bonuses, will be paid to our Directors as remuneration by us in respect of the year ending 31 December 2004 according to the present arrangements.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date) and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, in addition to the interests disclosed under the section headed "Further Information about our Directors" in Appendix IV to this prospectus, so far as the Directors are aware, the following persons are expected to have interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

(i) *Long positions in the shares and underlying shares of the Company*

Name of interested party	Capacity	Number of shares in which the interested party is deemed to have interests	Approximate percentage of interest in the Company
Cardio Investments Limited	Trustee (Note 1)	174,740,250	7.2%
Global Vision Venture Capital Co., Ltd.	Beneficial owner	151,980,000	6.3%
China Power Venture Capital Co., Ltd.	Beneficial owner	151,980,000	6.3%
Wintek Corporation	Interest by attribution (Note 2)	139,000,000	5.8%
Lo Hong Sui, Vincent.....	Interest by attribution (Note 3)	123,000,000	5.1%
Shui On Company Limited	Interest by attribution (Note 4)	123,000,000	5.1%
HSBC International Trustee Limited	Trustee/Interest by attribution (Note 5)	242,000,000	10.0%
Shui On Construction and Materials Limited.....	Interest by attribution (Note 6)	123,000,000	5.1%
Goldcrest Development Limited.....	Interest by attribution (Note 7)	123,000,000	5.1%
The Yangtze Ventures Limited	Interest by attribution (Note 8)	123,000,000	5.1%
Extreme Performance Limited.....	Beneficial owner	123,000,000	5.1%
Leung Kwong Wai	Beneficial owner	121,400,001	5.0%
Cheung Sau Shan	Family (Note 9)	121,400,001	5.0%

Notes:

- Cardio Investments Limited is the trustee holding these Shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme). Cardio Investments Limited is owned as to approximately 33.33% by Mr. Leung Kwong Wai, an executive Director. Further details of the scheme and the plan are set out in the section headed "Pre-IPO Schemes" in this Appendix IV to this prospectus.
- Under the SFO, Wintek Corporation is deemed to be interested in these Shares by virtue of the fact that Wintek Technology (Cayman) Corporation and Wintek (BVI) Corporation are its wholly-owned subsidiaries. Wintek Technology (Cayman) Corporation is interested in 72,000,000 Shares and Wintek (BVI) Corporation is interested in 67,000,000 Shares.

SUBSTANTIAL SHAREHOLDERS

3. Mr. Lo is interested in the shares of Shui On Company Limited held by HSBC International Trustee Limited.
4. Shui On Company Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Construction and Materials Limited.
5. Out of the 242,000,000 Shares:
 - (a) HSBC International Trustee Limited is the trustee holding an aggregate of 119,000,000 Shares on trust for the beneficiaries under the Share Award Plan and the pre-IPO share reward plan adopted by the Company (being part of the Pre-IPO Stock Reward Scheme). Further details of these plans are set out in the sections headed "Continuing Schemes" and "Pre-IPO Schemes" in Appendix IV to this prospectus; and
 - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Company Limited, and therefore is deemed to be interested in the 123,000,000 Shares held by Extreme Performance Limited.
6. Shui On Construction and Materials Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Goldcrest Development Limited.
7. Goldcrest Development Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of The Yangtze Ventures Limited.
8. The Yangtze Ventures Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Extreme Performance Limited.
9. Ms. Cheung Sau Shan is the spouse of Mr. Leung Kwong Wai, and is therefore deemed to be interested in the Shares held by Mr. Leung Kwong Wai under the SFO.

(ii) *Short positions in the shares and underlying shares of the Company*

Name of interested party	Capacity	Number of shares subject to short position and in which the interested party is deemed to have interests	Approximate percentage of interest in the Company
Cardio Investments Limited	Trustee (Note 1)	174,740,250	7.2%
Lo Hong Sui, Vincent.....	Interest by attribution (Note 2)	90,536,000	3.7%
Shui On Company Limited	Interest by attribution (Note 3)	90,536,000	3.7%
HSBC International Trustee Limited	Trustee/Interest by attribution (Note 4)	209,536,000	8.7%
Shui On Construction and Materials Limited	Interest by attribution (Note 5)	90,536,000	3.7%
Goldcrest Development Limited.....	Interest by attribution (Note 6)	90,536,000	3.7%
The Yangtze Ventures Limited	Interest by attribution (Note 7)	90,536,000	3.7%
Extreme Performance Limited	Beneficial owner (Note 8)	90,536,000	3.7%
Leung Kwong Wai.....	Personal/Beneficiary (Note 9)	25,000,000	1.0%
Cheung Sau Shan.....	Family (Note 10)	25,000,000	1.0%

Notes:

1. Cardio Investments Limited is the trustee holding these Shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme). Cardio Investments Limited is under an obligation to deliver these Shares to the respective beneficiaries upon fulfilment of certain conditions set out in the scheme and the plan respectively. Cardio Investments Limited is owned as to approximately 33.33% by Mr. Leung Kwong Wai, an executive Director. Further details of the scheme and the plan are set out in the section headed "Pre-IPO Schemes" in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

2. Mr. Lo is interested in the shares of Shui On Company Limited held by HSBC International Trustee Limited.
3. Shui On Company Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Construction and Materials Limited.
4. Out of the 209,536,000 Shares:
 - (a) HSBC International Trustee Limited is the trustee holding an aggregate of 119,000,000 Shares on trust for the beneficiaries under the pre-IPO share reward plan adopted by the Company (being part of the Pre-IPO Stock Reward Scheme) and the Share Award Plan. HSBC International Trustee Limited is under an obligation to deliver these Shares to the respective beneficiaries upon fulfilment of certain conditions set out in each of these plans. Further details of these plans are set out in the sections headed "Continuing Schemes" and "Pre-IPO Schemes" in Appendix IV to this prospectus; and
 - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Company Limited, and therefore is deemed to be interested in these 90,536,000 Shares held by Extreme Performance Limited subject to short position.
5. Shui On Construction and Materials Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Goldcrest Development Limited.
6. Goldcrest Development Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of The Yangtze Ventures Limited.
7. The Yangtze Ventures Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Extreme Performance Limited.
8. This is disclosed on the assumption that a stock borrowing agreement will be entered into between Extreme Performance Limited and the Global Coordinator before completion of the Global Offering, under which Extreme Performance Limited will agree to lend up to 90,536,000 Shares to the Global Coordinator for the purposes of covering over-allocations in the Global Offering.
9. Mr. Leung is under an obligation to deliver these Shares to the Custodian and/or Cardio Investments Limited if certain conditions are not satisfied during the specified lock-up periods under the Pre-IPO Loyalty Plan and the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme), respectively. Further details on the lock-up are set out in the section headed "Disclosure of interests" in Appendix IV to this prospectus.
10. Ms. Cheung is the spouse of Mr. Leung, and therefore is deemed to be interested in the 25,000,000 Shares held by Mr. Leung subject to short position.

SHARE CAPITAL

	<i>HK\$</i>
Authorised share capital:	
5,000,000,000 Shares of HK\$0.10 each	500,000,000
Issued shares:	
2,074,852,711 Shares in issue as at the date of this prospectus	207,485,271
Shares to be issued:	
339,465,640 Shares to be issued pursuant to the Global Offering	33,946,564
Total:	
<u>2,414,318,351</u> Shares	<u>241,431,835</u>

Note: The above number of Shares have been calculated based on the maximum number of Shares that may be offered pursuant to the Global Offering without taking into account any exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, then 90,536,000 additional Shares will be issued resulting in a total enlarged issued share capital of 2,504,854,351 Shares with a nominal value of HK\$250,485,435.10.

(1) Assumption

The above table assumes that the Global Offering becomes unconditional but does not take into account any exercise of the Over-allotment Option. It also takes no account of the Shares which may be issued pursuant to the exercise of options offered under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or the general mandate referred to in paragraph (4) below or which may be repurchased by the Company under the mandate referred to in paragraph (5) below.

(2) Ranking

The Shares to be issued will rank equally with all Shares currently in issue or to be issued, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

(3) Pre-IPO Share Option Scheme and Share Option Scheme

We have adopted the Pre-IPO Share Option Scheme whereby options to subscribe for an aggregate of 6,300,000 Shares have been conditionally offered to 12 directors of the members of the Group. This represents approximately 0.3% of the Company's total issued share capital immediately after completion of the Global Offering, taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option. No further options will be granted under the Pre-IPO Share Option Scheme after completion of the Global Offering.

The Company has conditionally adopted the Share Option Scheme, whereby staff and directors of the members of the Group, among others, may be granted options entitling them to subscribe for Shares which, when aggregated with options granted under any other share option schemes for Shares, amount to a maximum of 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange and any Shares which may be allotted and issued by the Company pursuant to the Over-allotment Option (subject to such 10% limit being refreshed at a Shareholders' meeting, and the overall 30% ongoing limit on all share option schemes as imposed by the Stock Exchange Listing Rules).

The principal terms of both the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised in the sections headed "Pre-IPO Schemes" and "Continuing Schemes" in Appendix IV to this prospectus.

(4) General Mandate to Issue Shares

Conditional on the conditions as stated in "Structure and Conditions of the Global Offering — Conditions of the Public Offering," the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares

SHARE CAPITAL

to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our shareholders) shall not exceed:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering including Shares which may be issued upon the exercise of Over-allotment Option; and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

This general mandate to issue Shares will remain in effect until:

- (i) the conclusion of the Company's next annual general meeting;
 - (ii) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or
 - (iii) it is varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,
- whichever is the earliest.

For further details of this general mandate, please refer to the section headed "Further Information about our Company — Resolutions passed at an extraordinary general meeting of the Company" in Appendix IV to this prospectus.

(5) General Mandate to Repurchase Shares

Conditional on conditions as stated in "Structure and Conditions of the Global Offering — Conditions of the Public Offering," the Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering including Shares which may be issued upon the exercise of the Over-allotment Option.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Stock Exchange Listing Rules. A summary of the relevant Stock Exchange Listing Rules is set out in the section headed "Repurchase of our Shares" in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until:

- (i) the conclusion of the Company's next annual general meeting;
 - (ii) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or
 - (iii) it is varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,
- whichever is the earliest.

For further details of this general mandate, please refer to the section headed "Further Information about our Company — Resolutions passed at an extraordinary general meeting of the Company" in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion in conjunction with our audited consolidated financial statements as at and for the years ended December 31, 2001, 2002 and 2003, and, in each case, the notes thereto, which are included in the Accountant's Report set out in Appendix I of this prospectus and prepared in accordance with Hong Kong GAAP.

OVERVIEW

We are an independent fabless semiconductor company specialising in the design, development and sale of proprietary IC solutions that primarily enable the displays of mobile devices such as cellular phones and handheld. Our main products are colour STN display ICs, monochrome STN display ICs, greyscale STN display ICs and OLED display ICs. We are seeking to diversify into other display applications such as large-size flat panel TFT-LCD display ICs.

Cellular Phone Industry

The cellular phone industry has experienced rapid growth since 1998 although the rate of growth has slowed from time to time and there was a decrease in shipments of cellular phones in 2001 compared to the previous year. According to IDC, global shipments of cellular phones are expected to grow from 427.1 million units in 2002 to 657.2 million units in 2007. In addition, more and more cellular phones are equipped with high-resolution colour displays rather than monochrome screens. This has correspondingly caused a shift in demand for display ICs from monochrome STN display ICs to newer generation colour STN, TFT and OLED display ICs and this trend is expected to continue.

For Fiscal 2001, Fiscal 2002 and Fiscal 2003, substantially all of our turnover was derived from the sale of cellular phone display ICs. Since the launch of our colour STN display ICs and OLED display ICs, our sales volume has grown more than 50% in Fiscal 2003 compared to Fiscal 2002 and over 140% in Fiscal 2002 compared to Fiscal 2001. For a breakdown of our sales volume, see "Business — Current Product Offerings — Mobile Displays." Based on the industry trends for cellular phones as estimated by IDC and as described in "Industry Overview," we expect this trend to continue. At the same time, the trend towards having sub-displays in cellular phones, which are typically less advanced than the main display, has enabled us to maintain a steady shipment of monochrome display ICs. For information on our shipment of monochrome display ICs, see "Business — Current Product Offerings — Mobile Displays."

Fabless Producer of Display ICs

We are what is known in the IC industry as a fabless IC producer. We outsource the manufacture of wafers or the packaging and testing of our display ICs and thus rely on a number of contract manufacturers. We therefore do not incur the considerable capital expenditure typically required to build a fab, packaging and testing facilities and other related costs. As we do not enter into long-term contracts with the contract manufacturers, we may be unable to obtain adequate production capacity to meet any ad hoc increases in demand.

Our customers' purchase orders typically vary from period to period, and it is not easy to forecast future order quantities. To balance the inventory risk and shorten the delivery lead-time to customers, we started in late 2002 to invest in and consign certain packaging and testing equipment with our contract manufacturers in order to alleviate potential capacity bottlenecks. Such equipment is dedicated to the packaging and testing of our products but located at, and used by, the contract manufacturer. In each of Fiscal 2002 and 2003, we invested approximately US\$0.9 million and US\$1.6 million, respectively, to purchase such equipment. We expect to continue to purchase and consign additional packaging and testing equipment, when appropriate, as our turnover continues to increase.

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Technology Migration and Product Price Declines

Due to rapid technological advances in the IC industry, the price of our products tends to decline rapidly over the product life cycle reflecting shifts in the demand for the types of displays used in mobile devices and increased competition as more manufacturers are able to produce similar products in volume. The sales volume of a product tends to decrease from the middle to the late phases of the display IC life cycle for the foregoing reasons, but typically increases from the early to middle phases of the display IC life cycle reflecting increased market acceptance of the display IC and the technology it incorporates, as well as increased demand. However, such pricing and sales trends are not linear and are subject to frequent fluctuations, particularly during the transition period from the early to middle phases and during the phase-out period of a product life cycle.

An important factor for the commercial success of our products is the features they contain. We can deliver products with features our customers demand because of the technologies we employ. Since our inception, we have continually added to our portfolio of products by developing display ICs that employ each migration of the relevant technology. Since prices for display ICs of a given level of technology typically decline over the technology's life cycle, we must continue to be at the forefront of technology through developing and successfully implementing increasing technological capabilities into our products in order to maintain or improve our margins.

Engagement of Distributors

We have developed a strong regional and global sales and distribution network and appointed various distributors to ensure comprehensive regional and global sales coverage. In Fiscal 2001, approximately one-third of our sales and approximately two-thirds of our sales in Fiscal 2002 and Fiscal 2003 were channelled through distributors. By appointing distributors to build relationships in local markets, handle the logistics and custom clearance, absorb local currency exposure and credit risk, we are able to focus on design, development, application and engineering support. Our own sales and marketing team work with brand owners and display module makers to maintain relationships that enable us to co-develop products and strengthen our brand profile.

New Products

We produce a full range of display ICs for mobile devices. By building on our existing relationships with brand owners and display module makers and leveraging our market position, we believe that we have a good understanding of the requirements of the display IC market for mobile devices. Accordingly, we seek to continue to develop and expand our portfolio of mobile device display IC products. In addition, the capabilities we have developed in designing, developing and selling mobile device display ICs enable us to develop products for other display applications where we identify opportunities based on our understanding of market trends. We are currently developing large panel TFT-LCD display ICs and display ICs for microdisplays and E-paper.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial statements prepared by our management and are based upon management's then-current judgements. Note 2, "Principal accounting policies," of our audited consolidated financial statements which are included in the Accountants' Report set out in Appendix I of this prospectus includes a summary of the principal accounting policies used in the preparation of such financial statements. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting

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estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgements. Our management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of our financial statements.

Specific provisions for inventory written off

Our management exercises judgement in making provisions for inventory. Inventory of technology companies is affected by the speed of technological change. As a result, logistics and planning play an important role in our making commitments for inventory purchases and in monitoring our inventory level. In addition, our management monitors advances in relevant technology so that it can make judgements about whether impending changes will make current technology and inventory using such technology obsolete. Predicting obsolescence, however, is difficult and may not reflect the actual pace of technological change. Taking into account such factors, our management balances inventory risk against minimising the lead-time for delivery of our finished products to our customers. At 31 December 2001, 2002 and 2003, the specific provisions (including aging) made against inventories were US\$853,000, US\$143,000, US\$689,000, respectively. As some of the inventories which were written down to net realisable value were subsequently sold in 2002, the specific provision against inventories at 31 December 2002 was decreased by US\$710,000 compared to 31 December 2001. Differences in actual experience and estimated pace of technological change could have a material impact on our financial condition and results of operation.

Provision on impairment of tangible and intangible assets

Our management carries out a review on the recoverable amount of assets at each balance sheet date, based on available internal and external information. If there is any indication that assets may be impaired, our management will exercise their judgement and estimate the recoverable amount. An impairment loss is then recorded to reduce the value of such asset to its recoverable amount. Such impairment loss is recognised in the consolidated profit and loss account.

Provision for Doubtful Debts

Provision is made against accounts receivable to the extent amounts are considered to be doubtful. Our management must make estimates of the uncollectability of our accounts receivables from third parties. Accounts receivable in the balance sheet is stated net of such provision.

The provision for doubtful debts is made by management primarily based on the aging of such debt. For the Fiscal 2001, Fiscal 2002 and Fiscal 2003, our top five customers accounted for 88.0%, 86.8% and 85.3%, respectively, of our accounts receivable as at 31 December of each year. As we have not historically had any doubtful debt problem with our top five customers based on the ageing of their accounts receivables, our management does not make any provision for doubtful debt with respect to the accounts receivable of such customers. Such historical ageing experience could be different from the actual credit condition of such customers. Such difference could have a material impact on our financial condition and results of operation.

The Group' general provision policy for accounts receivable, based on our historical experience, is as follows:

Age of debts	Over 180 days		
	Less than 180 days	and less than 1 year	Over 1 year
Percentage of provision:	3%	50%	100%

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According to the Group's general provision policy, we made US\$198,000 and US\$336,000 general provision in Fiscal 2003 and 2002 and we reversed US\$121,000 general provision in Fiscal 2001.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Turnover is our revenues from sale of goods. We derive our sales revenue primarily from the sale of display IC products. Such revenues are affected by the selling price, volume of ICs sold and the type of ICs sold. The majority of our products are used in cellular phone applications.

Cost of Sales

Our cost of sales consists primarily of:

- costs of outsourcing wafer production to wafer foundries;
- costs of outsourcing packaging and testing services to specialist factories; and
- depreciation of consigned production equipment, if any.

We constantly seek to lower per unit costs by shrinking the die size, improving wafer yield, test and packaging yield, and developing test programmes to more efficiently process each die.

Research & Development Costs

Our research and development costs are associated with the research of new technologies and the development of new products. On top of materials, equipment, process and tooling, such costs include amortisation of patents and intellectual property together with compensation to staff whose primary function is in research and development.

All research and development costs incurred by us during the three years ended 31 December 2001, 2002 and 2003 have been expensed. In future, the Group's research and development costs will only be capitalised and amortized if they satisfy the following provisions of SSAP 29:

- the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so;
- costs are identifiable; and
- there is an ability to sell or use the asset that will generate probable future economic benefits.

Selling and Distribution Expenses

Selling and distribution expenses primarily comprise the following:

- sales commissions to agents;
- export charges for display ICs; and
- compensation to sales and marketing staff.

Administrative Expenses

Administrative expenses consists primarily of employee compensation (other than those whose primary function is in research and development, or quality and manufacturing or marketing), real estate rental costs, facilities expenses, amortisation of goodwill, tradeshow expenses, and depreciation of non-production equipment.

Other Operating Income/Expenses

Our operating income/expenses include one-off gains/charges, gains/losses on foreign exchange transactions and unrealised gains/losses on non-marketable equity securities held for long-term investment.

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Finance Costs

Finance costs consist primarily of interest charges on overdraft facilities and interest on finance leases. There has been no major indebtedness throughout the relevant period.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth our selected consolidated financial information for Fiscal 2001, Fiscal 2002 and Fiscal 2003 which has been extracted from our audited consolidated financial statements for Fiscal 2001, Fiscal 2002 and Fiscal 2003 attached hereto as Appendix I.

	As at and for the year ended 31 December		
	2001	2002	2003
	(in U.S.\$ thousands, except per share data)		
Profit and Loss Account Data:			
Turnover	37,511	60,022	109,339
Cost of sales	(25,236)	(39,135)	(63,294)
Gross profit	12,275	20,887	46,045
Other revenues	384	98	67
Research and development costs	(5,016)	(6,543)	(7,743)
Selling and distribution expenses	(813)	(855)	(994)
Administrative expenses	(3,907)	(4,440)	(9,510)
Other operating income/(expenses)	258	(909)	(142)
Operating profit	3,181	8,238	27,723
Finance costs	(32)	(2)	(2)
Profit before taxation	3,149	8,236	27,721
Taxation	(496)	(1,458)	(5,036)
Profit for the year	2,653	6,778	22,685
Dividend	—	6,122	—
Basic earnings per share (US cents)	0.13	0.33	1.09
Balance Sheet Data:			
Fixed assets	1,143	1,465	5,490
Patents and intellectual property	2,475	1,575	675
Goodwill	275	175	291
Investment securities	848	—	—
Bank balances and cash	9,315	22,467	37,173
Other current assets	18,030	22,813	37,974
Total assets	32,086	48,495	81,603
Current liabilities	4,980	14,610	31,099
Non-current liabilities	530	531	588
Total liabilities	5,510	15,141	31,687
Other Financial Data:			
Net cash inflows from operating activities	891	14,086	26,659
Net cash outflows from investment activities	(751)	(921)	(4,797)
Net cash inflow/(outflow) from financing activities	4,203	(12)	(7,155)

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The following table sets forth our selected profit and loss account data as a percentage of our turnover for Fiscal 2001, Fiscal 2002 and Fiscal 2003.

	For the year ended 31 December		
	2001	2002	2003
	(%)		
Profit and Loss Account Data:			
Turnover	100.0	100.0	100.0
Cost of sales	(67.3)	(65.2)	(57.9)
Gross profit	32.7	34.8	42.1
Other revenues	1.0	0.1	0.1
Research and development costs	(13.4)	(10.9)	(7.1)
Selling and distribution expenses	(2.1)	(1.4)	(0.9)
Administrative expenses	(10.4)	(7.4)	(8.7)
Other operating income/(expenses)	0.7	(1.5)	(0.1)
Operating profit	8.5	13.7	25.4
Finance costs	(0.1)	0	0
Profit before taxation	8.4	13.7	25.4
Taxation	(1.3)	(2.4)	(4.6)
Profit for the year	7.1	11.3	20.8

RESULTS OF OPERATIONS

Fiscal 2003 Compared with Fiscal 2002

Turnover

Turnover increased by US\$49.3 million, or 82.2%, from US\$60.0 million in Fiscal 2002 to US\$109.3 million in Fiscal 2003. The increase was primarily due to:

- an increase in the volume of sales of our products by 51.0% from 47.1 million units in Fiscal 2002 to 71.2 million units in Fiscal 2003;
- an increase in the blended average selling price of our products by 21.3% due to an increasing uptake of our higher-value added display ICs such as colour STN and OLED ICs; and
- the successful launch of new OLED and colour STN display ICs in late 2002 and early 2003, respectively.

Cost of Sales

Cost of sales increased by US\$24.2 million, or 61.7%, from US\$39.1 million in Fiscal 2002 to US\$63.3 million in Fiscal 2003. The increase was primarily the result of increased sales. Cost of sales as a percentage of turnover decreased from 65.2% to 57.9% between Fiscal 2002 and Fiscal 2003. The decrease of cost of sales as a percentage of turnover was due to the sales of a higher portion of new products such as colour STN and OLED ICs which usually have lower cost of sales as a percentage of turnover than existing products, improved yields due to more efficient process technology and increase in bargaining power against suppliers with increased scale of operations.

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Gross Profit

Gross profit increased by US\$25.2 million, or 120.5%, from US\$20.9 million in Fiscal 2002 to US\$46.0 million in Fiscal 2003. This was primarily due to an increase in the overall sales volume of our display ICs, an increase in the blended average selling price for our products due to an increased uptake of higher-value added display ICs such as colour STN and OLED ICs and improved yields due to more efficient process technology with increased scale of operations. Gross profit as a percentage of turnover increased from 34.8% to 42.1% between Fiscal 2002 and Fiscal 2003. Such increase was due to the decrease of cost of sales as a percentage of turnover.

Research and Development Costs

Research and development costs increased by US\$1.2 million, or 18.3%, from US\$6.5 million in Fiscal 2002 to US\$7.7 million in Fiscal 2003. The increase was primarily due to increased number of new engineering products to support business growth. Research and development costs as a percentage of turnover decreased from 10.9% to 7.1% between Fiscal 2002 and Fiscal 2003 because the increase in sales growth was higher than the increase in scheduled project spending .

Selling and Distribution Expenses

Selling and distribution expenses increased by US\$139,000, or 16.3%, from US\$855,000 in Fiscal 2002 to US\$994,000 in Fiscal 2003. The increase was primarily due to increased headcount and compensation levels for marketing employees and increased incentive payments arising from increased sales. Selling and distribution expenses as a percentage of turnover decreased from 1.4% to 0.9% between Fiscal 2002 and Fiscal 2003.

Administrative Expenses

Administrative expenses increased by US\$5.1 million, or 114.2%, from US\$4.4 million in Fiscal 2002 to US\$9.5 million in Fiscal 2003. A majority of the increase was due to a one-time expense of US\$2.6 million relating to our funding for the purchase of our shares for the benefit of our employees. Details of such purchase can be found in the section headed "Continuing Schemes" in Appendix IV to this prospectus. Other than the one-time expense set out above, the increase was due to the following factors:

- an increase in rental expenses arising from the relocation of our headquarters to its present premises in the Hong Kong Science Park in the second half of Fiscal 2003; and
- higher performance bonuses and incentive payments made to employees as a result of our improved financial performance in Fiscal 2003.

Administrative expenses as a percentage of turnover increased from 7.4% to 8.7% between Fiscal 2002 and Fiscal 2003.

Other Operating Income/(Expenses)

In Fiscal 2003, we had other operating expenses of US\$142,000, which was a decrease from US\$909,000 in Fiscal 2002. Other operating expenses as a percentage of turnover decreased from 1.5% to 0.1% between Fiscal 2002 and Fiscal 2003 because impairment loss on investment was fully provided for in 2002.

Operating Profit

Operating profit increased by US\$19.5 million, or 236.5%, from US\$8.2 million in Fiscal 2002 to US\$27.7 million in Fiscal 2003. The increase was primarily due to an increase in turnover coupled with a lower rate of increase in our cost of sales and operating expenses. Operating profit as a percentage of turnover increased from 13.7% to 25.4% between Fiscal 2002 and Fiscal 2003.

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Profit before Taxation

Profit before taxation increased by US\$19.5 million, or 236.6%, from US\$8.2 million in Fiscal 2002 to US\$27.7 million in Fiscal 2003. Profit before taxation as a percentage of turnover increased from 13.7% to 25.4% between Fiscal 2002 and Fiscal 2003.

Taxation

Taxation increased by US\$3.6 million, or 245.4%, from US\$1.5 million in Fiscal 2002 to US\$5.0 million in Fiscal 2003. The increase was primarily due to an increase in our profit before taxation and also an increase in the corporate profit tax rate attributable to Hong Kong companies in Fiscal 2003. Taxation as a percentage of turnover increased from 2.4% to 4.6% between Fiscal 2002 and Fiscal 2003.

Profit for the Year

Profit for the year increased by US\$15.9 million, or 234.7%, from US\$6.8 million in Fiscal 2002 to US\$22.7 million in Fiscal 2003. Profit for the year as a percentage of turnover increased from 11.3% to 20.8% between Fiscal 2002 and Fiscal 2003.

Fiscal 2002 Compared with Fiscal 2001

Turnover

Turnover increased by US\$22.5 million, or 60.0%, from US\$37.5 million in Fiscal 2001 to US\$60.0 million in Fiscal 2002. The increase was primarily due to:

- an increase in the volume of sales of our products by 143.3% from 19.4 million units in Fiscal 2001 to 47.1 million units in Fiscal 2002; and
- a global economic recovery and the recovery of the global semiconductor market from a downturn commencing in the second half of Fiscal 2002.

This increase was offset by a 35.5% decrease in the blended average selling prices for our display ICs and the lack of new products launches until the second half of Fiscal 2002, resulting in greater competition from other display IC products in the market for a significant part of Fiscal 2002.

Cost of Sales

Cost of sales increased by US\$13.9 million, or 55.1%, from US\$25.2 million in Fiscal 2001 to US\$39.1 million in Fiscal 2002. The increase was mainly due to increased turnover, which was mitigated by a decrease in the per unit cost of raw materials. The downturn of the semiconductor industry as a whole in Fiscal 2001 resulted in our contract manufacturers lowering wafer fabrication charges. In addition, while costs of sales increased in the fourth quarter of Fiscal 2002 with the launch of our new products, we were able to offset those cost increases by decreasing the cost of sales for existing products. Cost of sales as a percentage of turnover decreased from 67.3% to 65.2% between Fiscal 2001 and Fiscal 2002.

Gross Profit

Gross profit increased by US\$8.6 million, or 70.2%, from US\$12.3 million in Fiscal 2001 to US\$20.9 million in Fiscal 2002. The increase was mainly due to turnover which increased at a higher rate than the increase in costs of sales. Gross profit as a percentage of turnover slightly increased from 32.7% to 34.8% between Fiscal 2001 and Fiscal 2002.

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Research and Development Costs

Research and development costs increased by US\$1.5 million, or 30.4%, from US\$5.0 million in Fiscal 2001 to US\$6.5 million in Fiscal 2002. The increase was mainly due to increased research and development efforts in Fiscal 2002 in connection with the development of new products for Fiscal 2003. Research and development costs as a percentage of turnover decreased from 13.4% to 10.9% between Fiscal 2001 and Fiscal 2002.

Selling and Distribution Expenses

Selling and distribution expenses increased by US\$42,000, or 5.2%, from US\$813,000 in Fiscal 2001 to US\$855,000 in Fiscal 2002. The increase was mainly due to increased headcount of marketing employees and increased compensation and incentive payments to marketing employees arising from increased sales. Selling and distribution expenses as a percentage of turnover decreased from 2.1% to 1.4% between Fiscal 2001 and Fiscal 2002.

Administrative Expenses

Administrative expenses increased by US\$533,000, or 13.6%, from US\$3.9 million in Fiscal 2001 to US\$4.4 million in Fiscal 2002. The increase was due to the following factors:

- an increase in head count of general and administrative employees; and
- higher performance bonuses and incentive payments made to employees as a result of our improved financial performance in Fiscal 2002.

Administrative expenses as a percentage of turnover decreased from 10.4% to 7.4% between Fiscal 2001 and Fiscal 2002.

Other Operating Expenses

We had other operating income of US\$258,000 in Fiscal 2001, but incurred other operating expense of US\$909,000 in Fiscal 2002. The expense was mainly due to a provision we made in Fiscal 2002 to write off our investment in Solomon Microtech Limited, after its net asset value fell below the recorded cost of our investment.

Operating Profit

Operating profit increased by US\$5.1 million, or 159.0%, from US\$3.2 million in Fiscal 2001 to US\$8.2 million in Fiscal 2002. Operating profit as a percentage of turnover increased from 8.5% to 13.7% between Fiscal 2001 and Fiscal 2002.

Profit before Taxation

Profit before taxation increased by US\$5.1 million, or 161.5%, from US\$3.1 million in Fiscal 2001 to US\$8.2 million in Fiscal 2002. Profit before taxation as a percentage of turnover increased from 8.4% to 13.7% between Fiscal 2001 and Fiscal 2002.

Taxation

Taxation increased by US\$1.0 million, or 194.0%, from US\$496,000 in Fiscal 2001 to US\$1.5 million in Fiscal 2002. The increase was mainly due to profit before tax that was 155.5% higher in Fiscal 2002 than in Fiscal 2001. Taxation as a percentage of turnover increased from 1.3% to 2.4% between Fiscal 2001 and Fiscal 2002.

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Profit for the Year

Profit for the year increased by US\$4.1 million, or 155.5%, from US\$2.7 million in Fiscal 2001 to US\$6.8 million in Fiscal 2002. Profit for the year as a percentage of turnover increased from 7.1% to 11.3% between Fiscal 2001 and Fiscal 2002.

After taking into account our operations, earnings, financial condition, cash requirements and availability and other factors, we declared dividends of US\$6.1 million in Fiscal 2002 and no dividends in Fiscal 2001. The dividend for Fiscal 2002 was wholly funded by the retained earnings of the Group.

SHARE AWARD PLAN

This plan has been effective prior to the Listing, but no award of Shares has been made. Potential participants under this plan include officers and employees of the Group.

After the initial 46,223,520 Shares shall have been granted to employees under the Share Award Plan, to the extent that the Trustee acquires Shares from the market at market price or subscribes Shares from the Company at par value to satisfy the grant to officers/employees, the Group will account for such acquisition or subscription as expenses based on the actual consideration paid. Such new Shares subscribed by the Trustee at par value will cause dilution to the earnings per Share and net asset value per Share because of the increase in number of Shares outstanding after the issuance. While we cannot predict how and when SSAP may change, if SSAP in the future requires that issue of Shares to officers/employees must be expensed at fair value (i.e. at market price), the profitability of the Group will be reduced when the Shares are awarded to officers/employees under the Share Award Plan.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We need cash primarily to fund product research and development, investment in operational infrastructure for expansion such as rental premises and office automation, investment in securing capacity such as the purchase of packaging and testing equipment and working capital needs. We fund these capital requirements primarily through cash from operations. This source of funding, and our ability to fund our capital expenditure needs, could be adversely affected by downturns in demand for products that use our products, which would result in a decrease in demand for our display ICs.

Operating Activities

Net cash inflow generated by our operating activities amounted to US\$26.7 million, US\$14.1 million, US\$891,000 in Fiscal 2003, Fiscal 2002 and Fiscal 2001, respectively, representing an increase of US\$12.6 million, or 89.3%, in Fiscal 2003 compared to Fiscal 2002 and an increase of US\$13.2 million, or 1,480.9%, in Fiscal 2002 compared to Fiscal 2001.

Investing Activities

Net cash outflow generated from investing activities amounted to US\$4.8 million, US\$921,000 and US\$751,000 in Fiscal 2003, Fiscal 2002 and Fiscal 2001, respectively. Net cash outflow from investing activities increased by US\$3.9 million, or 420.8% in Fiscal 2003 compared to Fiscal 2002, primarily due to capital expenditures incurred for the purchase of packaging and testing equipment. Net cash outflow from investing activities increased by US\$170,000, or 22.6%, in Fiscal 2002 compared to Fiscal 2001, primarily due to capital expenditures incurred for the purchase of packaging and testing equipment.

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Financing Activities

Net cash outflow from financing activities amounted to US\$7.2 million in Fiscal 2003 and US\$12,000 in Fiscal 2002 and net cash inflow from financing activities amounted to US\$4.2 million in Fiscal 2001. The increase in net cash outflow from financing activities in Fiscal 2003 compared to Fiscal 2002 was primarily due to the payment of dividends in Fiscal 2003. The decrease in net cash from financing activities from Fiscal 2001 to Fiscal 2002 was primarily due to the fact that in Fiscal 2001 there was an injection of capital into Solomon Systech Limited.

Working Capital, Cash and Indebtedness

We fund our short-term working capital requirements primarily through cash flow from operations, and to a limited extent, through working capital facilities and short-term borrowings. As of 31 December 2003, 2002 and 2001, we had cash and cash equivalents of US\$37.2 million, US\$22.5 million and US\$9.3 million, respectively. The increase in cash and cash equivalents of US\$14.7 million, or 65.5%, in Fiscal 2003 compared to Fiscal 2002 was primarily due to an increase in the net cash inflow generated from operating activities which outweighed net cash outflows generated from investing activities and net cash outflows from financing activities. There was an increase in cash and cash equivalents of US\$13.2 million, or 141.2%, in Fiscal 2002 compared to Fiscal 2001 primarily due to an increase in the net cash inflow generated from operating activities. We believe that our existing credit lines under our short-term credit facilities, together with cash generated from our operations and the proceeds of the Global Offering, will be sufficient to finance our working capital needs for the next twelve months.

As at the Latest Practicable Date, we had outstanding unsecured obligations under finance leases of US\$4,000 of which US\$3,000 is repayable in the first year and US\$1,000 is repayable in the second year. We have the following credit facilities:

Bank	Facilities	Amount	Due Date
The Hongkong and Shanghai Banking Corporation Limited	Combined overdraft and other facilities	US\$10 million	15 August 2004
Hua Nan Commercial Bank, Limited	Combined overdraft and other facilities	US\$6.1 million	6 February 2005
Dao Heng Bank	Bank Guarantee	HK\$801,486.46	Indefinite

Contractual Commitments and Capital Expenditures

We have continuing obligations to make payments on certain finance leases. In Fiscal 2003, Fiscal 2002 and Fiscal 2001, we paid US\$7,000 each year under these commitments.

We have made, and expect to continue to make, capital expenditures in connection with purchasing of packaging and testing equipment for consignment to our contract manufacturers starting late 2002. In Fiscal 2003 and Fiscal 2002, our capital expenditures in connection with such purchases were US\$1.7 million and US\$0.9 million, respectively.

Contingent Liabilities

As at the Latest Practicable Date, we do not have any contingent liability.

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MARKET RISKS

Our primary market risk exposure is expected to relate to movements in foreign currency exchange rates. Currently, all of our sales revenue and substantially all of our cost of sales are denominated in US dollars, to which the HK dollar is pegged. As we expect our operations to be undertaken on a global basis, in which we expect the primary currency would be US dollars, we expect that a significant portion of our foreign currency exposure will be naturally hedged. For the exchange rate exposure in relation to the acquisition of production machinery, which expenditure is usually denominated in a foreign currency other than US dollars, the Group employs forward currency exchange contracts to manage its exposure to exchange rate risk. As such expenditure is not substantial, we do not consider such exposure to be significant.

We do not believe we are exposed to any interest rate risk as we have no outstanding indebtedness.

TAXES

As our operations are based on Hong Kong, substantially all of our turnover is subject to Hong Kong profits tax. The rate of profit tax was 16%, 16% and 17.5% for Fiscal 2001, Fiscal 2002 and Fiscal 2003, respectively.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31 December 2003, as shown in the Accountants' Report set out in Appendix I, adjusted as described below:

	(US\$'000)
Consolidated net tangible assets of the Group as at 31 December 2003 (Note 1).....	48,950
Dividends approved on 3 February 2004 (Note 2).....	(16,000)
Estimated net proceeds from the Global Offering (Note 3).....	76,000
Adjusted net tangible assets	<u>108,950</u>
Adjusted net tangible assets value per Share (Note 4)	<u>4.51 US cents</u>

Notes:

1. The difference between our net tangible assets of approximately US\$48,950,000 as at 31 December 2003 and our net assets of approximately US\$49,916,000 as at 31 December 2003 as set forth in Appendix I to this prospectus represents our intangible assets of approximately US\$966,000.
2. On 3 February 2004, the directors proposed a dividend of HK\$0.066 per Share, totalling US\$16,000,000 which was paid on 1 March 2004 and funded by the surplus cash of the Group.
3. The estimated net proceeds accruing to us from the Global Offering of approximately US\$76 million is stated after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming an Offer Price of HK\$1.825 per Share, being the midpoint of the stated offer price range.
4. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 2,414,318,351 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company under the Share Award Plan as described in Appendix IV to this prospectus.

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DIVIDEND POLICY

Dividend Policy

Our Board of Directors may declare dividends after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment and the amount of dividends will be subject to the constitution of the Company and the Companies Law. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board of Directors.

Distributable Reserves

As at 31 December 2003, we had reserves of US\$44,022,000 available for distribution to our shareholders.

DISCLOSURE OF CERTAIN ADVANCES AND FINANCIAL ASSISTANCE RELATED MATTERS

As of 31 December 2003, we confirmed that we are not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2003.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 31 December 2003 and there is no event since 31 December 2003 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

UNDERWRITING

PUBLIC OFFERING UNDERWRITERS

Global Coordinator, Sponsor and Sole Bookrunner

J.P. Morgan Securities (Asia Pacific) Limited

Co-Lead Managers

BNP Paribas Peregrine Capital Limited

CLSA Limited

Co-Managers

BOCI Asia Limited

Celestial Capital Limited

DBS Asia Capital Limited

First Shanghai Securities Limited

Grand Cathay Securities (Hong Kong) Limited

Kingsway Financial Services Limited

Tai Fook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offering

Public Offering Underwriting Agreement

We are offering the Public Offering Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares and to certain other conditions set out in the Public Offering Underwriting Agreement, the Public Offering Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Public Offering Shares which are being offered but are not taken up under the Public Offering on the terms and conditions of this prospectus, the Application Forms and the Public Offering Underwriting Agreement.

Grounds for Termination

The obligation of the Public Offering Underwriters to subscribe or procure subscribers for the Public Offering Shares is subject to termination if, at any time prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange:

- I. there has been a breach of any of the warranties or there has been a breach by us of any of the provisions in the Public Offering Underwriting Agreement; or
- II. any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom; or
- III. any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect; or
- IV. there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities referred to in the Public Offering Underwriting Agreement; or
- V. there shall have been any adverse change or prospective adverse change in the business or the financial or trading position of any member of the Group; or

UNDERWRITING

VI. there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:

(a) any change in, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States) in Hong Kong, the Cayman Islands, the United States, the United Kingdom, Japan, the PRC, Singapore, France, Germany, Italy or any other jurisdiction considered by JPMorgan to be relevant; or

(b) any new applicable law or change in applicable existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the United States, the United Kingdom, Japan, the PRC, Singapore, France, Germany, Italy or any member of the European Union or any other jurisdiction considered by JPMorgan to be relevant; or

(c) any event of force majeure affecting Hong Kong, the Cayman Islands, the United States, the United Kingdom, Japan, the PRC, Singapore, France, Germany, Italy or any member of the European Union or any other jurisdiction considered by JPMorgan to be relevant including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or

(d) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange or the New York Stock Exchange or any suspension of trading of any of the securities of the Company on any exchange or over-the-counter market or any major disruption of any securities settlement or clearing services in the US or Hong Kong or on commercial banking activities in Hong Kong or New York, due to exceptional financial circumstances or otherwise; or

(e) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the United States, the United Kingdom, Japan, the PRC, Singapore, France, Germany, Italy or any member of the European Union or any other jurisdiction considered by JPMorgan to be relevant;

which in the sole opinion of the Global Coordinator (for itself and on behalf of the Public Offering Underwriters):

(1) is or will be, or is likely to be, materially adverse to the general affairs, management, business, financial, trading or other condition or prospects of the Group or to any present or prospective shareholder of the Company in its capacity as such; or

(2) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or

(3) makes it impracticable, inexpedient or inadvisable to proceed with the Public Offering and/or the International Placing on the terms and in the manner contemplated in this prospectus.

UNDERWRITING

Undertakings

Pursuant to the Reorganisation, each of the current Shareholders have undertaken to the Company for itself and as trustee for the Sponsor (the "Lock-up Provisions"), that it shall not offer, sell, contract to sell, issue, sell any option or contract to purchase, grant any option, right or warrant to purchase, charge, mortgage, pledge, encumber or otherwise dispose of directly or indirectly the Shares it currently holds or any interest therein or securities convertible into or exercisable or exchangeable for such Shares or any interest therein or enter into any swap, hedge, or other arrangement that transfers to another, in whole or in part, any of the economic consequences of such Shares or any interest therein, settled in cash or otherwise, for the period commencing from the completion of the Reorganisation to a date ending six months from the date on which trading in the Shares first commences on the Stock Exchange (the "Six-month Period"), other than such Shares which may be acquired under the Global Offering or after the Listing Date or where written prior consent of the Company (for itself and as trustee of the Sponsor) has been obtained. In respect of the Lock-up Provisions, the Company has consented to Extreme Performance Limited, one of the Selling Shareholders, entering into stock borrowing arrangements to facilitate the settlement of over-allocations in connection with the Global Offering. Current Shareholders who are also Selling Shareholders are expected to give a similar undertaking to the International Underwriters pursuant to the International Underwriting Agreement. Pursuant to the Public Offering Underwriting Agreement, we have undertaken to the Underwriters that we shall (i) not agree to any variation of the Lock-up Provisions without the consent of JPMorgan, such grant of consent to be at the absolute discretion of JPMorgan and (ii) take all necessary action to enforce the Lock-up Provisions. We intend to make a similar undertaking to the International Underwriters pursuant to the International Underwriting Agreement.

Under the Stock Exchange Listing Rules, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within the Six-month Period (whether or not such issue of Shares or securities will be completed within the Six-month Period), except in certain prescribed circumstances, which includes the issues of Shares pursuant to the Over-Allotment Option. In addition, pursuant to the Public Offering Underwriting Agreement, we have undertaken to the Public Offering Underwriters that, except pursuant to the Global Offering, during the Six-month Period, we will not, without the Global Coordinator's prior written consent, (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of our share capital or other securities or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein), (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein, (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above, or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (a), (b) or (c) above, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise. We intend to make a similar undertaking to the International Underwriters pursuant to the International Underwriting Agreement.

UNDERWRITING

Commission and expenses

The Public Offering Underwriters will receive a commission of 3% of the aggregate Offer Price payable for the Public Offering Shares initially offered under the Public Offering, out of which they will pay any sub-underwriting commissions. For unsubscribed Public Offering Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Public Offering Underwriters.

Public Offering Underwriters' interest in our Company

Save for its obligations under the Public Offering Underwriting Agreement, none of the Public Offering Underwriters has any shareholding interests in our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Public Offering as part of the Global Offering. JPMorgan is the Global Coordinator and sole bookrunner of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Public Offering of 66,396,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Public Offering”; and
- the International Placing of 537,186,000 Shares (subject to adjustment as mentioned below) in the United States with QIBs in reliance on Rule 144A, and outside the United States in reliance on Regulation S.

Of the total of 603,582,000 Shares comprised in the Global Offering (assuming the Over-allotment Option is not exercised), we are offering 339,465,640 Shares and the Selling Shareholders are offering 264,116,360 Shares.

Investors may apply for our Shares under the Public Offering or indicate an interest, if qualified to do so, for our Shares under the International Placing, but may not do both. The Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of our Shares to QIBs in the United States in reliance on Rule 144A, as well as to institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International Placing. Prospective investors will be required to specify the number of our Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or before Tuesday, 30 March 2004.

The number of Shares to be offered under the Public Offering and the International Placing respectively may be subject to reallocation as described in “— Pricing and Allocation.”

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Wednesday, 31 March 2004 and in any event, no later than Tuesday, 6 April 2004.

The Offer Price will be not more than HK\$2.05 and is expected to be not less than HK\$1.60, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Global Coordinator (on behalf of the Underwriters and with our consent) considers it appropriate, the indicative offer price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

in any event not later than the morning of the last day for lodging applications under the Public Offering on Tuesday, 30 March 2004, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in "Summary," and any other financial information which may change as a result of such reduction. Before submitting applications for Public Offering Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offering. Applicants under the Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the indicative offer price range is so reduced.

The Shares to be offered in the Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Global Coordinator.

Allocation of our Shares pursuant to the International Placing will be determined by the Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Shares to investors under the Public Offering will be based solely on the level of valid applications received under the Public Offering. The basis of allocation may vary, depending on the number of Public Offering Shares validly applied for by applicants, but will be made strictly on a pro-rata basis, although the allocation of Public Offering Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offering Shares, and those applicants who are not successful in the ballot may not receive any Public Offering Shares.

The net proceeds from the Global Offering accruing to us are estimated to be approximately HK\$589 million. The estimated net proceeds are calculated assuming an Offer Price of HK\$1.825 per Share (being the midpoint of the stated offer price range of HK\$1.60 to HK\$2.05 per Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

The net proceeds from the Global Offering accruing to the Selling Shareholders (after deduction of underwriting fees and estimated expenses payable by the Selling Shareholders in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.825, being the mid-point of the proposed Offer Price range of HK\$1.60 to HK\$2.05), are estimated to be approximately HK\$459 million.

The applicable Offer Price, level of applications in the Public Offering, the level of indications of interest in the International Placing, and the basis of allocations of the Public Offering Shares are expected to be announced on Wednesday, 7 April 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CONDITIONS OF THE PUBLIC OFFERING

Acceptance of all applications for the Public Offering Shares pursuant to the Public Offering will be conditional on:

- (a) the granting by the Listing Committee of the Stock Exchange of listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), and any Shares which may be issued pursuant to the exercise of the options which were conditionally granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme; and
- (b) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (c) the obligations of the Underwriters under each of the Public Offering Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 24 April 2004.

If for any reason, the Offer Price is not agreed by 6 April 2004 between us and the Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Public Offering Shares." In the meantime, the application monies will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE PUBLIC OFFERING

We are initially offering 66,396,000 new Shares at the Offer Price, representing 11.0% of the 603,582,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offering will represent 2.75% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

For allocation purposes only, of the 66,396,000 Shares initially being offered for purchase under the Public Offering:

- (i) 12,070,000 Shares (representing approximately 2% of the total number of Shares initially being offered under the Global Offering) will be available for applications by eligible employees of the Group (other than the Directors and their associates (as defined in the Stock Exchange Listing Rules)); and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

(ii) 54,326,000 Shares (representing approximately 9% of the total number of Shares initially being offered under the Global Offering) will be available for subscription by the public.

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Public Offering to provide sufficient information to the Global Coordinator so as to allow them to identify the relevant applications under the Public Offering and to ensure that it is excluded from any application for Shares under the Public Offering.

The Offer Price will be not more than HK\$2.05 and is expected to be not less than HK\$1.60. Applicants under the Public Offering are required to pay, on application, the maximum offer price of HK\$2.05 per Share plus 1.0% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$2.05, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Public Offering Shares."

For allocation purposes only, the Public Offering Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offering and the International Placing and after deducting the number of Public Offering Shares validly applied for under the employee preferential offer) will be divided equally into two pools: Pool A and Pool B, both of which are available on an equitable basis to successful applicants. If the employee preferential offer is not fully taken up, any excess Shares will be re-allocated to Pool A and Pool B in equal proportions. All valid applications that have been received for Public Offering Shares with a total subscription amount (excluding brokerage, SFC transaction levy, investor compensation levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offering Shares with a total subscription amount (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offering Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offering Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offering Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 54,326,000 Shares initially available for subscription by the public (that is 27,163,000 Public Offering Shares) are liable to be rejected.

The allocation of Shares between the Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offering (including the employee preferential offer) represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offering, the total number of Shares available under the Public Offering (including the employee preferential offer) will be increased to 181,076,000, 241,434,000, 301,792,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Global Coordinator deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

If the Public Offering is not fully subscribed, the Global Coordinator has the authority to reallocate all or any unsubscribed Public Offering Shares to the International Placing, in such proportions as the Global Coordinator deems appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offering.

THE INTERNATIONAL PLACING

The number of Shares to be initially offered for subscription or sale under the International Placing will be 537,186,000 Shares (comprising 273,069,640 new Shares and 264,116,360 Shares to be offered by us and the Selling Shareholders, respectively), representing 89.0% of the Offer Shares under the Global Offering. The International Placing is subject to the Public Offering being unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Global Coordinator on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Global Coordinator will have the right to require us to allot and issue up to an aggregate of 90,536,000 additional new Shares, representing in aggregate 15.0% of the initial Offer Shares, at the Offer Price, to cover over-allocations in the International Placing, if any.

EMPLOYEE PREFERENTIAL OFFER

12,070,000 Shares (representing approximately 2% of the total number of Shares initially available under the Global Offering) are available for subscription by eligible employees of the Group (other than the Directors and their associates (as defined in the Stock Exchange Listing Rules)). Rule 10.04 of the Stock Exchange Listing Rules restricts any person who is an existing shareholder of the Company from subscribing for or purchasing shares of the Company if such Shares are offered to him on a preferential basis or if preferential treatment is given to him. The Stock Exchange has granted a waiver from the requirement that any offer made to the employees of the Company or its subsidiaries or associated companies on a preferential basis cannot be made to the existing shareholders of the Company, such that eligible employees (other than the Directors and their associates (as defined in the Stock Exchange Listing Rules)) who are existing shareholders of the Company may apply for Shares in the employee preferential offer. This waiver is subject to the following conditions:

- (i) not more than 12,070,000 Shares or 2% of the Shares initially available under the Global Offering, whichever is lower, will be allocated to the eligible employees; and
- (ii) none of the eligible employees is a Director or an associate of such Director and will not become a substantial shareholder as a result of the allocation of Shares under the employee preferential offer.

Each eligible employee will be entitled to purchase Shares under the Public Offering with the same assured entitlement of Shares. This has already been communicated to the eligible employees. Eligible employees can apply for less than, equal to or more than their assured entitlement, and eligible employees who apply for more than their assured entitlement may receive such additional Shares depending upon the aggregate level of applications by other eligible employees. If the sum of the assured entitlements of those eligible employees who apply under the employee preferential offer is less than 12,070,000 Shares that are

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

available to eligible employees, any such excess Shares will be allocated in multiples of full board lots to those eligible employees who apply for more than their assured entitlement. Allocation of these Shares will be made in an equitable manner based on the amount of shares applied for and will not be based on the seniority, the length of service, or the work performance of the eligible employees. Any Shares not subscribed by eligible employees in connection with the employee preferential offer will be available for subscription by the public under the Public Offering.

DEALING ARRANGEMENTS

Assuming that the Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 8 April 2004, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, 8 April 2004.

UNDERWRITING ARRANGEMENTS

The Public Offering is fully underwritten by the Public Offering Underwriters under the terms of the Public Offering Underwriting Agreement, subject to agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

We expect on or about 31 March 2004, shortly after determination of the Offer Price, to enter into the International Underwriting Agreement relating to the International Placing.

Underwriting arrangements, the Public Offering Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed "Underwriting."

HOW TO APPLY FOR PUBLIC OFFERING SHARES

There are two ways to make an application for our Shares. You may either use an Application Form or you may **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

(I) APPLYING BY USING AN APPLICATION FORM

Which Application Form to Use

Use a **white** Application Form if you want the Shares issued in your own name.

Use a **yellow** Application Form if you want the Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Use a **pink** application form if you are a Hong Kong full-time employee of the Company or its subsidiaries and want your application to be given preferential consideration. Up to 12,070,000 Offer Shares (being approximately 18% of the Public Offering Shares initially available for subscription under the Public Offering) are available to Hong Kong full-time employees of the Company or its subsidiaries on this basis.

Where to Collect the Application Forms

You can collect a **white** Application Form and a prospectus from:

Any participant of The Stock Exchange of Hong Kong Limited

(in alphabetical order)

Global Coordinator, Sponsor and Sole Bookrunner

J.P. Morgan Securities (Asia Pacific) Limited 25th Floor, Chater House,
8 Connaught Road,
Hong Kong

Co-Lead Managers

BNP Paribas Peregrine Capital Limited 36/F, Asia Pacific Finance Tower,
3 Garden Road,
Central,
Hong Kong

CLSA Limited 18/F, One Pacific Place,
80 Queensway,
Hong Kong

Co-Managers

BOCI Asia Limited 35/F, Bank of China Tower,
1 Garden Road,
Hong Kong

Celestial Capital Limited 21/F, Low Block,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

HOW TO APPLY FOR PUBLIC OFFERING SHARES

DBS Asia Capital Limited	16/F, Man Yee Building, 68 Des Voeux Road, Hong Kong
First Shanghai Securities Limited	19/F, Wing On House, 71 Des Voeux Road, Hong Kong
Grand Cathay Securities (Hong Kong) Limited	Suite 1120, Pacific Place 2, 88 Queensway, Admiralty, Hong Kong
Kingsway Financial Services Limited	5/F, Hutchison House, 10 Harcourt Road, Hong Kong
Tai Fook Securities Company Limited	25/F, New World Tower, 18 Queen's Road Central, Hong Kong

or any of the following branches of Standard Chartered Bank:

Standard Chartered Bank

	Branch Name	Address
Hong Kong Island	Central Branch	Shop no. 16, G/F & LG/F, New World Tower, 16-18 Queen's Road Central
	Des Voeux Road Branch	Standard Chartered Bank Bldg, 4-4A Des Voeux Road Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central
	Leighton Centre Branch	Shop 12-16, Upper Ground Floor, Leighton Centre, 77 Leighton Road
	Taikoo Place Branch	G/F, 969 King's Road, Quarry Bay
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre, Aberdeen
Kowloon	Mongkok Bank Ctre Branch	Bank Centre, 630-636 Nathan Road, Mongkok
	Tsim Sha Tsui Branch	10 Granville Road, Tsimshatsui
	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan

HOW TO APPLY FOR PUBLIC OFFERING SHARES

	Branch Name	Address
	Oterprise Square Branch	Shop no. 3, G/F and Shop no. 1, 1/F Oterprise Square, 26 Nathan Road, Tsimshatsui
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
	Yaumatei Branch	546-550 Nathan Road, Yaumatei
	San Po Kong Branch	10-20 Ning Yuen Street, San Po Kong
	Kowloon Bay Branch	Shop No 1, G/F., Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon Bay
New Territories	Tsuen Wan Branch	Basement 1/F, Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan
	Yuen Long Branch	140, Yuen Long Main Road, Yuen Long
	Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin

You can collect a **yellow** Application Form and a prospectus from:

1. The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, or
2. The Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

You can collect a **pink** Application Form from the Company at:

6/F No. 3 Science Park East Avenue
Hong Kong Science Park
Pak Shek Kok
New Territories
Hong Kong

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

You should note that by signing on the Application Form:

- (i) you confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (ii) you agree that our Company, the Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not indicated an interest for, applied for or taken up any Shares under the International Placing; and
- (iv) you agree to disclose to our Company, its sub-registrar, receiving banker, advisers and agents and the Global Coordinator personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

(i) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- (a) the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
- (b) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) If the application is made by an individual CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
- (b) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

- (a) the Application Form must contain all joint CCASS Investor Participant's name and Hong Kong Identity Card Number of at least one of the joint CCASS Investor Participants; and
- (b) the participant I.D. must be inserted and the authorised signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Business Registration number; and
- (b) the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatories must be inserted in the appropriate box in the Application Form.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, we and the Global Coordinator as our agent may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Global Coordinator in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Members of the Public — Time for Applying for Public Offering Shares

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Tuesday, 30 March 2004, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank listed under the section headed “Where to Collect the Application Forms” above at the following times:

Thursday, 25 March 2004 — 9:00 a.m. to 4:00 p.m.
Friday, 26 March 2004 — 9:00 a.m. to 4:00 p.m.
Saturday 27 March 2004 — 9:00 a.m. to 12:00 noon
Monday, 29 March 2004 — 9:00 a.m. to 4:00 p.m.
Tuesday, 30 March 2004 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12 noon on Tuesday, 30 March 2004.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until the closing of the application lists. No allotment of any of the Shares will be made later than 24 April 2004.

Eligible Full-time Employees — Time for Applying for Public Offering Shares

Completed **pink** application forms, with payment attached, must be returned to the company secretary, Lui Kit Har, Keziah, at 6/F No. 3 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong by 12 noon on Monday, 29 March 2004.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 30 March 2004. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Publication of Results

We expect to announce the Offer Price, the level of indication of interest in the International Placing, the basis of allotment, the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Public Offering on Wednesday, 7 April 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Despatch/Collection of Share Certificates and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure and Conditions of the Global Offering — Conditions of the Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) for applicants on **white, yellow** or **pink** application forms, (i) Share certificate(s) for all the Public Offering Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Public Offering Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

(b) for applicants on **white, yellow** and **pink** application forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offering Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% but without interest.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and Share certificates for successful applicants under white or pink Application Forms are expected to be posted on or before Wednesday, 7 April 2004. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s).

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Public Offering Shares or more and you have elected on your **white** Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Share registrar, Tricor Investor Services Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 April 2004. If you are an individual, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be despatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

If you apply for less than 1,000,000 Public Offering Shares, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 7 April 2004 by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for Public Offering Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Wednesday, 7 April, 2004, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offering Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offering Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Public Offering in the newspapers on Wednesday, 7 April 2004. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 April 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees. On Thursday, 8 April 2004 (the next day following the credit of the Public Offering Shares to your stock account), you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offering Shares credited to your stock account.

If you apply for 1,000,000 Public Offering Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

(c) If you apply using a PINK Application Form:

Share certificate(s) and/or refund cheque(s) (if any) made on **pink** Application Forms will be sent to the address specified in your Application Form on the date of despatch by ordinary post and at your own risk.

(II) APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offering Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HOW TO APPLY FOR PUBLIC OFFERING SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offering Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrars.

Application for Public Offering Shares by HKSCC Nominees on Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offering Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - agrees that the Public Offering Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - undertakes and agrees to accept the Public Offering Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
 - understands that the above declaration will be relied upon by our Company, the Directors and the Global Coordinator in deciding whether or not to make any allotment of Public Offering Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
 - authorises our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offering Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;

HOW TO APPLY FOR PUBLIC OFFERING SHARES

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations;
- you agree that our Company, the Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company and our registrar, receiving bankers, advisers and agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that that person cannot revoke the electronic application instructions before 24 April 2004, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offering Shares to any person before 24 April 2004 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before 24 April 2004 if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offering Shares; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offering Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offering Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offering Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offering Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.

Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Public Offering Shares. Such instructions in respect of more than 2,000 Public Offering Shares must be in one of the multiples set out in the table in the Application Forms.

Time for Inputting Electronics Application Instructions

CCASS Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 25 March 2004 — 9:00 a.m. to 7:00 p.m.

Friday, 26 March 2004 — 9:00 a.m. to 7:00 p.m.

Saturday, 27 March 2004 — 9:00 a.m. to 3:00 p.m.

Monday, 29 March 2004 — 9:00 a.m. to 7:00 p.m.

Tuesday, 30 March 2004 — 9:00 a.m. to 12:00 noon

These times are subject to changes as HKSCC may determine from time to time with prior notification to CCASS Participants.

Effect of Bad Weather on the Last Application Day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 30 March 2004, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 30 March 2004, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Allocation of Public Offering Shares

For the purposes of allocating Public Offering Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or

HOW TO APPLY FOR PUBLIC OFFERING SHARES

your CCASS Investor Participant stock account at the close of business on Wednesday, 7 April 2004 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offering in the newspapers on Wednesday, 7 April 2004. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 April 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offering Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offering Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 7 April 2004. On Thursday, 8 April 2004, (i.e., the next day following the credit of the Public Offering Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account), HKSCC will also make available to you an activity statement showing the number of Public Offering Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 7 April 2004. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company and our registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Public Offering Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sponsor, the Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offering Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the

HOW TO APPLY FOR PUBLIC OFFERING SHARES

event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, 30 March 2004.

(III) HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Shares only if:

(i) You are a **nominee**, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

(ii) You are an eligible full-time employee and apply on a **pink** application form.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form (other than a **pink** Application Form), you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorised to sign the Application Form as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC; or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 50% of the Shares initially being offered for public subscription under the Public Offering as more particularly described in the paragraph headed "Structure and Conditions of the Global Offering — The Public Offering";
- make more than one application on a **pink** application form; or
- apply on one **pink** application form for more than 100% of the Public Offering Shares being offered to full-time employees on a preferential basis; or
- have indicated an interest for or have been or will be placed Offer Shares under the International Placing.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**) unless you are an eligible full-time employee of the Group who has made an application on a **pink** application form. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

(IV) CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFERING SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC you agree that you cannot revoke your application on or before 24 April 2004. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application. This collateral contract will be in consideration of us agreeing that we will not offer any Shares to any person on or before 24 April 2004 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application on or before 24 April 2004 if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of our Company or our agent to reject or accept:**

We and our agents (including the Global Coordinator) have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

- **If the allotment of Public Offering Shares is void:**

The allotment of Public Offering Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within 3 weeks from the closing of the application lists; or
- within a longer period of up to 6 weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within 3 weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Placing. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC, you agree not to apply for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Public Offering Shares in the Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Shares under the Public Offering or indicate an interest for Shares under the International Placing, but may not do both.

(V) HOW MUCH ARE THE PUBLIC OFFERING SHARES

The maximum offer price is HK\$2.05 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. This means that for every 2,000 Shares you will pay HK\$4,141.49. The Application Forms have tables showing the exact amount payable for certain multiples of Shares up to 1,000,000 Shares.

You must pay the maximum offer price, brokerage, SFC transaction levy, investor compensation levy and the Stock Exchange trading fee in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange, SFC transaction levy, investor compensation levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy and the investor compensation levy, collected on behalf of the SFC).

HOW TO APPLY FOR PUBLIC OFFERING SHARES

(VI) REFUND OF APPLICATION MONIES

If you do not receive any Public Offering Shares for any reason, our Company will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund cheques will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Global Coordinator, cheques for applications made on Application Forms for certain small denominations of Public Offering Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Wednesday, 7 April 2004 in accordance with the various arrangements as described above.

(VII) COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 8 April 2004.

The Shares will be traded in board lots of 2,000 each. The stock code of the Company is 2878.

(VIII) SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

The Directors
Solomon Systech (International) Limited
J.P. Morgan Securities (Asia Pacific) Limited

25 March 2004

Dear Sirs,

We set out below our report on the financial information relating to Solomon Systech (International) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for inclusion in the prospectus of the Company dated 25 March 2004 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. Pursuant to a group reorganisation as described in Note 1 of Section II (the "Reorganisation"), the Company became the holding company of the subsidiaries set out below, except for Ample Pacific Limited which was incorporated after the Reorganisation.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Company	Place and date of incorporation/ establishment	Issued and fully paid capital	Attributable equity interests	Principal activities
<i>Directly held:</i>				
Solomon Systech Limited ("SSL")	Hong Kong 26 May 1997	188,585,271 ordinary shares of HK\$1 each	100%	Research, design, development and distribution of integrated circuits ("ICs")
Ample Pacific Limited ("Ample")	British Virgin Islands 2 January 2004	50,000 ordinary shares of US\$1 each	100%	Investment holding
<i>Indirectly held:</i>				
Solomon Systech Inc. ("SSI")	United States of America 24 March 2003	20,000 ordinary shares of US\$1 each	100%	Market research

Company	Place and date of incorporation/ establishment	Issued and fully paid capital	Attributable equity interests	Principal activities
Solomon Systech (Shenzhen) Limited ("SSSZ")	The People's Republic of China (the "PRC") 13 November 2000	HK\$8,000,000 registered capital	100%	Research, design and development of ICs
Systech Technology China Limited ("STCL")	Hong Kong 10 September 2001	10,000 ordinary shares of HK\$1 each	100%	Investment holding

Note: SSSZ was a subsidiary of the Group until 28 September 2001 when it was disposed of. Accordingly, the results of SSSZ were only consolidated up to the date of disposal for the year ended 31 December 2001. STCL and SSSZ were acquired by the Group on 20 February 2003. Their results were only consolidated since the date of acquisition for the year ended 31 December 2003. The effect of the acquisition of subsidiaries is not material to the Group's financial position as at 31 December 2003 and the results for the year then ended.

All companies comprising the Group have adopted 31 December as their financial year end date.

No audited accounts have been prepared for the Company since its date of incorporation as it was newly incorporated and has not been involved in any significant business transactions since incorporation other than the Reorganisation. No audited accounts have been prepared for SSI and Ample since their respective date of incorporation as they were newly incorporated and have not been involved in any significant business transactions since incorporation.

We acted as auditors of SSL for the three years ended 31 December 2003 (the "Relevant Periods"). We also acted as auditors of STCL for the year ended 31 December 2003, and the accounts of STCL for the two years ended 31 December, 2001 and 2002 were audited by Simon Yau & Co.. The accounts of SSSZ for the Relevant Periods were audited by 深圳眾環會計師事務所. The accounts of SSSZ for the Relevant Periods were prepared in accordance with the applicable accounting principles and relevant financial regulations in the PRC.

We have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies comprising the Group for the Relevant Periods or since the effective date of acquisition or date of incorporation, whichever is later, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information as set out in Sections I to IV below (the "Financial Information") has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the Group, on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of respective companies for the Relevant Periods are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared based on the basis set out in note 1 of Section II below, gives a true and fair view of the consolidated results and consolidated cash flows of the Group for the Relevant Periods and the consolidated state of affairs of the Group as at 31 December, 2001, 2002 and 2003 and the state of affairs of the Company as at 31 December 2003.

SECTION I — CONSOLIDATED ACCOUNTS

(a) Consolidated profit and loss accounts

The following is a summary of the consolidated profit and loss accounts of the Group for the Relevant Periods prepared on the basis set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Section II Note	Year ended 31 December		
		2001	2002	2003
		US\$'000	US\$'000	US\$'000
Turnover	3	37,511	60,022	109,339
Cost of sales		(25,236)	(39,135)	(63,294)
Gross profit		12,275	20,887	46,045
Other revenues	3	384	98	67
Research and development costs		(5,016)	(6,543)	(7,743)
Selling and distribution expenses		(813)	(855)	(994)
Administrative expenses		(3,907)	(4,440)	(9,510)
Other operating income/(expenses)		258	(909)	(142)
Operating profit	5	3,181	8,238	27,723
Finance costs	6	(32)	(2)	(2)
Profit before taxation		3,149	8,236	27,721
Taxation	8	(496)	(1,458)	(5,036)
Profit for the year		2,653	6,778	22,685
Dividend	9	—	6,122	—
Basic earnings per share (US cents)	10	0.13	0.33	1.09

(b) Balance sheets

The following is a summary of the consolidated balance sheets of the Group as at 31 December 2001, 2002 and 2003 and the balance sheet of the Company as at 31 December 2003, prepared on the basis set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Section II Note	Group			Company
		As at 31 December			As at
		2001	2002	2003	31 December 2003
		US\$'000	US\$'000	US\$'000	US\$'000
Non-current assets					
Fixed assets	13	1,143	1,465	5,490	—
Patents and intellectual property	14	2,475	1,575	675	—
Investment in subsidiaries	15	—	—	—	49,916
Goodwill	16	275	175	291	—
Investment securities.....	17	848	—	—	—
		<u>4,741</u>	<u>3,215</u>	<u>6,456</u>	<u>49,916</u>
Current assets					
Inventories	18	3,221	4,973	13,083	—
Accounts and bills receivables.....	19	3,012	14,535	20,860	—
Prepayments, deposits and other receivables.....		3,364	521	848	—
Due from related companies	20	5,759	103	—	—
Due from a subsidiary.....	15	—	—	—	18,408
Pledged bank deposits.....	31	2,674	2,681	3,183	—
Bank balances and cash		9,315	22,467	37,173	—
		<u>27,345</u>	<u>45,280</u>	<u>75,147</u>	<u>18,408</u>
Current liabilities					
Accounts payable	21	3,339	10,563	18,476	—
Bills payable.....		—	889	1,505	—
Accrued charges and other payables....	22	706	2,189	7,620	—
Due to related companies	20	91	—	—	—
Tax payable		838	964	3,494	—
Bank overdrafts, secured	31	1	—	—	—
Obligations under finance leases	23	5	5	4	—
		<u>4,980</u>	<u>14,610</u>	<u>31,099</u>	<u>—</u>
Net current assets		<u>22,365</u>	<u>30,670</u>	<u>44,048</u>	<u>18,408</u>
Total assets less current liabilities ..		<u>27,106</u>	<u>33,885</u>	<u>50,504</u>	<u>68,324</u>
Non-current liabilities					
Obligations under finance leases	23	10	5	1	—
Deferred taxation.....	24	520	526	587	—
		<u>530</u>	<u>531</u>	<u>588</u>	<u>—</u>
		<u>26,576</u>	<u>33,354</u>	<u>49,916</u>	<u>68,324</u>
Financed by:					
Capital and reserves					
Share capital	25	21,268	23,622	24,302	24,302
Reserves	26	5,308	9,732	25,614	44,022
Shareholders' funds		<u>26,576</u>	<u>33,354</u>	<u>49,916</u>	<u>68,324</u>

(c) Consolidated statements of changes in equity

The following is a summary of the consolidated statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Share capital	Merger reserve (note 26)	Exchange reserve	Retained earnings (note 26)	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2001	14,979	22	(2)	4,670	19,669
Exchange differences arising on translation of a subsidiary	—	—	2	—	2
Issue of new shares of SSL.....	2,192	2,060	—	—	4,252
Capitalisation of retained earnings for issue of new shares of SSL.....	988	—	—	(988)	—
Capitalisation of retained earnings for bonus issue of new shares of SSL.....	3,109	—	—	(3,109)	—
Profit for the year	—	—	—	2,653	2,653
At 31 December 2001 and at 1 January 2002	21,268	2,082	—	3,226	26,576
Capitalisation of retained earnings for issue of new shares of SSL.....	235	—	—	(235)	—
Capitalisation of retained earnings for bonus issue of new shares of SSL.....	2,119	—	—	(2,119)	—
Profit for the year	—	—	—	6,778	6,778
At 31 December 2002 and at 1 January 2003	23,622	2,082	—	7,650	33,354
Capitalisation of retained earnings for issue of new shares of SSL.....	680	—	—	(680)	—
Exchange differences arising on translation of a subsidiary	—	—	(1)	—	(1)
Profit for the year	—	—	—	22,685	22,685
Dividend paid.....	—	—	—	(6,122)	(6,122)
At 31 December 2003	<u>24,302</u>	<u>2,082</u>	<u>(1)</u>	<u>23,533</u>	<u>49,916</u>

(d) Consolidated cash flow statements

The following is a summary of the consolidated cash flows statements of the Group for the Relevant Periods prepared on the basis set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Section II Note	Year ended 31 December		
		2001 US\$'000	2002 US\$'000	2003 US\$'000
Operating activities				
Net cash inflow generated from operations	27(a)	1,073	15,415	29,106
Hong Kong profits tax paid		(150)	(1,327)	(2,445)
Interest paid		(30)	—	—
Interest element of finance lease rental payments		(2)	(2)	(2)
Net cash inflow from operating activities		891	14,086	26,659
Investing activities				
Purchase of fixed assets		(534)	(1,018)	(4,942)
Sale of fixed assets		2	—	34
Acquisition of subsidiaries, net of cash acquired	27(b)	—	—	44
Disposal of a subsidiary, net of cash disposed	27(c)	311	—	—
Purchase of investment securities		(848)	—	—
Interest received		318	97	67
Net cash outflow from investing activities		(751)	(921)	(4,797)
Financing activities				
Issuance of share capital in SSL		4,252	—	—
Payment of capital element of finance leases		(5)	(5)	(5)
Increase in pledged bank deposits		(44)	(7)	(502)
Repayment of loan from the then shareholders of SSSZ		—	—	(526)
Dividend paid		—	—	(6,122)
Net cash inflow/(outflow) from financing activities		4,203	(12)	(7,155)
Increase in cash and cash equivalents		4,343	13,153	14,707
Cash and cash equivalents at 1 January		4,970	9,314	22,467
Effect of foreign exchange rate changes		1	—	(1)
Cash and cash equivalents at 31 December		9,314	22,467	37,173
Analysis of balance of cash and cash equivalents:				
Bank balance and cash		9,315	22,467	37,173
Bank overdrafts		(1)	—	—
		9,314	22,467	37,173

SECTION II — NOTES TO THE CONSOLIDATED ACCOUNTS**1 Basis of preparation**

Pursuant to the Reorganisation, which was completed on 23 December 2003, the Company allotted and issued 1,885,852,710 ordinary shares of HK\$0.1 each to acquire the entire issued share capital of SSL from its then shareholders. The Company became the holding company of the subsidiaries now comprising the Group. The Reorganisation has been reflected in the Financial Information by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the Financial Information has been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries now comprising the Group for the Relevant Periods or from their respective dates of incorporation or acquisition as if the current structure had been in existence throughout the Relevant Periods.

No balance sheet of the Company as at 31 December 2001 and 2002 is presented as the Company was not incorporated on those dates.

All significant inter-group transactions and balances within the Group are eliminated on consolidation.

2 Principal accounting policies

The Financial Information set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by HKSA. It has been prepared under the historical cost convention.

(a) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

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

(b) Intangibles*(i) Patents and intellectual property*

Expenditure on acquired patents and intellectual property is capitalised and amortised using the straight-line method over their expected useful lives of five years.

(ii) Goodwill

Goodwill comprises: (a) the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries and (b) the excess of the costs of an acquisition over the fair value ascribed to the acquired business including patents and intellectual property, at the date of acquisition.

Goodwill is recognised as an asset and amortised using straight-line method over their estimated useful lives. Goodwill arising on acquisitions of patents and intellectual property is amortised over 5 years. Goodwill arising on other acquisitions is generally amortised over 2-5 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(c) Fixed assets*(i) Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(d) Assets under leases*(i) Finance leases*

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the consolidated profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

(e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

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

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials and sub-contracting charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Provisions

Provisions are recognised 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employee benefits**(i) Employee leave entitlements**

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

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

(ii) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(iv) Equity compensation benefits

Under the Founder Employee Stock Ownership Plan (the "Founder Plan") and the Employee Stock Reward Scheme (the "Reward Scheme"), the employees of the Group are entitled to receive shares in a subsidiary of the Group, SSL, from Solomon Systech (BVI) Limited (the "Trustee") which acts as the trustee of the Group's employees to receive shares on their behalf. A certain percentage of the SSL's profits available for distribution each year will be converted into new shares for the Trustee for the benefits of these employees by capitalising the retained earnings to pay up consideration in full for the new shares issued.

(l) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Revenue recognition

Revenue from the sale of products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment/delivery.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the consolidated profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and goodwill. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditures comprise additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditures are where the assets are located.

(p) Related party

A related party is a company where the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa. Companies are also considered to be related if they are subject to common control or common significant influence.

3 Turnover and revenues

The Group is principally engaged in research, design, development and distribution of ICs. Revenues recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Turnover			
Sale of goods	37,511	60,022	109,339
Other revenues			
Bank interest income	289	97	67
Other interest income	28	—	—
Other income	67	1	—
	384	98	67
Total revenues	37,895	60,120	109,406

4 Segmental analysis

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

(a) Business segment

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

(b) Geographical segments

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

(i) Segment revenue

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Hong Kong	10,644	36,497	47,277
PRC	8,871	2,093	11
Taiwan	7,243	15,258	32,226
Japan	10	6	24,004
Korea	7,990	5,635	3,196
United States of America	2,313	261	1,947
Others	440	272	678
	<u>37,511</u>	<u>60,022</u>	<u>109,339</u>

(ii) Capital expenditures by location of assets

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Hong Kong	463	119	3,234
PRC	71	899	1,298
Taiwan	—	—	619
	<u>534</u>	<u>1,018</u>	<u>5,151</u>

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

5 Operating profit

Operating profit is stated after crediting and charging the following:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Crediting			
Gain on disposal of a subsidiary	273	—	—
Net exchange gains	33	—	—
Write back of provision for doubtful debts.....	121	—	—
Charging			
Auditors' remuneration.....	23	23	28
Loss on disposal of fixed assets	—	—	1
Depreciation of owned fixed assets	864	689	1,089
Depreciation of leased fixed assets	8	6	2
Operating leases for land and buildings	312	260	343
Amortisation of patents and intellectual property included in research and development costs (note 14).....	900	900	900
Amortisation of goodwill included in administrative expenses (note 16).....	100	100	317
Staff costs (including directors' emoluments) (note 7)	4,044	5,134	10,414
Net exchange losses.....	—	7	77
Provision for doubtful debts.....	—	336	198
Provision for obsolete inventories	829	—	768
Impairment loss on investment securities (note 17).....	—	848	—

6 Finance costs

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Interest expenses on bank overdrafts and imported loans.....	30	—	—
Interest element of finance leases.....	2	2	2
	32	2	2

7 Staff costs

Staff costs including directors' emoluments comprise:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Salaries and wages	3,641	4,693	6,833
Pension cost — defined contribution plans	155	159	184
Share purchase costs for employees (note 22).....	—	—	2,652
Other staff benefits.....	248	282	745
	4,044	5,134	10,414

8 Taxation

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

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Current taxation:			
- Hong Kong profits tax	674	1,462	4,823
- (Over)/under-provision in prior years	23	(10)	152
Deferred taxation (note 24)	(201)	6	61
Taxation charges	<u>496</u>	<u>1,458</u>	<u>5,036</u>

Hong Kong profits tax has been provided at the rate of 16%, 16% and 17.5% on the estimated assessable profits for the three years ended 31 December 2001, 2002 and 2003 respectively. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for income tax has been provided for subsidiaries operating outside Hong Kong as they did not generate any assessable profits in respective jurisdictions during the Relevant Periods.

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

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Profit before taxation	3,149	8,236	27,721
Calculated at a taxation rate of 17.5% (2002: 16%, 2001: 16%)	504	1,318	4,851
Income not subject to tax	(34)	(11)	(11)
Expenses not deductible for taxation purpose	25	224	151
Increase in opening net deferred tax liabilities resulting from an increase in tax rate .	—	—	49
Others	1	(73)	(4)
Taxation charge	<u>496</u>	<u>1,458</u>	<u>5,036</u>

9 Dividend

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Final, paid of HK\$0.26 per ordinary share of SSL to its then shareholders	—	6,122	—

At a meeting held on 11 March 2003, the directors of SSL proposed a final dividend of HK\$0.26 per ordinary share for the year ended 31 December 2002. This proposed dividend was paid in 2003 and is reflected as an appropriation of retained earnings for the year ended 31 December 2003.

10 Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US\$2,653,000, US\$6,778,000 and US\$22,685,000 for the years ended 31 December, 2001, 2002 and 2003 respectively.

The basic earnings per share is based on the weighted average of 1,985,212,280, 2,074,852,711 and 2,074,852,711 ordinary shares in issue during each of the years ended 31 December, 2001, 2002 and 2003 respectively. In determining the weighted average number of ordinary shares in issue, a total of 1,808,846,553 ordinary shares were deemed to be in issue since 1 January 2001.

Diluted earnings per share information was not presented as there were no dilutive potential ordinary shares during the Relevant Periods.

11 Emoluments for directors and five highest paid individuals**(a) Directors' emoluments**

The aggregate amounts of emoluments paid and payable to the directors of the Company by the Group during the Relevant Periods are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Fees	18	88	154
Basic salaries, other allowances and benefits in kind	442	441	449
Discretionary bonus	51	165	248
Share Purchase Costs (note 22)	—	—	1,031
Retirement benefit scheme contributions	19	19	23
	<u>530</u>	<u>713</u>	<u>1,905</u>

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

None of the independent non-executive directors received or will receive any fee for the Relevant Periods.

The emoluments of the directors of the Company fell within the following band:

	Number of directors		
	Year ended 31 December		
	2001	2002	2003
Nil to HK\$1,000,000 (approximately US\$128,000).....	1	3	2
HK\$1,000,001 (approximately US\$128,000) to HK\$1,500,000 (approximately US\$192,000).....	2	2	1
HK\$1,500,001 (approximately US\$192,000) to HK\$2,000,000 (approximately US\$256,000).....	1	—	—
HK\$2,000,001 (approximately US\$256,000) to HK\$2,500,000 (approximately US\$321,000).....	—	—	1
HK\$2,500,001 (approximately US\$321,000) to HK\$3,000,000 (approximately US\$385,000).....	—	1	1
HK\$3,000,001 (approximately US\$385,000) to HK\$4,000,000 (approximately US\$493,000).....	—	—	—
HK\$4,000,001 (approximately US\$493,000) to HK\$5,000,000 (approximately US\$601,000).....	—	—	1
HK\$5,000,001 (approximately US\$601,000) to HK\$6,000,000 (approximately US\$709,000).....	—	—	—
HK\$6,000,001 (approximately US\$709,000) to HK\$7,000,000 (approximately US\$817,000).....	—	—	—
HK\$7,000,001 (approximately US\$817,000) to HK\$8,000,000 (approximately US\$925,000).....	—	—	—
HK\$8,000,001 (approximately US\$925,000) to HK\$9,000,000 (approximately US\$1,033,000).....	—	—	—
HK\$9,000,001 (approximately US\$1,033,000) to HK\$10,000,000 (approximately US\$1,141,000).....	—	—	—
HK\$10,000,001 (approximately US\$1,141,000) to HK\$11,000,000 (approximately US\$1,249,000).....	—	—	—
HK\$11,000,001 (approximately US\$1,249,000) to HK\$12,000,000 (approximately US\$1,357,000).....	—	—	—
HK\$12,000,001 (approximately US\$1,357,000) to HK\$13,000,000 (approximately US\$1,465,000).....	—	—	—
HK\$13,000,001 (approximately US\$1,465,000) to HK\$14,000,000 (approximately US\$1,573,000).....	—	—	—
HK\$14,000,001 (approximately US\$1,573,000) to HK\$15,000,000 (approximately US\$1,681,000).....	—	—	—
HK\$15,000,001 (approximately US\$1,681,000) to HK\$16,000,000 (approximately US\$1,789,000).....	—	—	—
HK\$16,000,001 (approximately US\$1,789,000) to HK\$17,000,000 (approximately US\$1,897,000).....	—	—	—
HK\$17,000,001 (approximately US\$1,897,000) to HK\$18,000,000 (approximately US\$2,005,000).....	—	—	—
HK\$18,000,001 (approximately US\$2,005,000) to HK\$19,000,000 (approximately US\$2,113,000).....	—	—	—
HK\$19,000,001 (approximately US\$2,113,000) to HK\$20,000,000 (approximately US\$2,221,000).....	—	—	—
HK\$20,000,001 (approximately US\$2,221,000) to HK\$21,000,000 (approximately US\$2,329,000).....	—	—	—
HK\$21,000,001 (approximately US\$2,329,000) to HK\$22,000,000 (approximately US\$2,437,000).....	—	—	—
HK\$22,000,001 (approximately US\$2,437,000) to HK\$23,000,000 (approximately US\$2,545,000).....	—	—	—
HK\$23,000,001 (approximately US\$2,545,000) to HK\$24,000,000 (approximately US\$2,653,000).....	—	—	—
HK\$24,000,001 (approximately US\$2,653,000) to HK\$25,000,000 (approximately US\$2,761,000).....	—	—	—
HK\$25,000,001 (approximately US\$2,761,000) to HK\$26,000,000 (approximately US\$2,869,000).....	—	—	—
HK\$26,000,001 (approximately US\$2,869,000) to HK\$27,000,000 (approximately US\$2,977,000).....	—	—	—
HK\$27,000,001 (approximately US\$2,977,000) to HK\$28,000,000 (approximately US\$3,085,000).....	—	—	—
HK\$28,000,001 (approximately US\$3,085,000) to HK\$29,000,000 (approximately US\$3,193,000).....	—	—	—
HK\$29,000,001 (approximately US\$3,193,000) to HK\$30,000,000 (approximately US\$3,301,000).....	—	—	—
HK\$30,000,001 (approximately US\$3,301,000) to HK\$31,000,000 (approximately US\$3,409,000).....	—	—	—
HK\$31,000,001 (approximately US\$3,409,000) to HK\$32,000,000 (approximately US\$3,517,000).....	—	—	—
HK\$32,000,001 (approximately US\$3,517,000) to HK\$33,000,000 (approximately US\$3,625,000).....	—	—	—
HK\$33,000,001 (approximately US\$3,625,000) to HK\$34,000,000 (approximately US\$3,733,000).....	—	—	—
HK\$34,000,001 (approximately US\$3,733,000) to HK\$35,000,000 (approximately US\$3,841,000).....	—	—	—
HK\$35,000,001 (approximately US\$3,841,000) to HK\$36,000,000 (approximately US\$3,949,000).....	—	—	—
HK\$36,000,001 (approximately US\$3,949,000) to HK\$37,000,000 (approximately US\$4,057,000).....	—	—	—
HK\$37,000,001 (approximately US\$4,057,000) to HK\$38,000,000 (approximately US\$4,165,000).....	—	—	—
HK\$38,000,001 (approximately US\$4,165,000) to HK\$39,000,000 (approximately US\$4,273,000).....	—	—	—
HK\$39,000,001 (approximately US\$4,273,000) to HK\$40,000,000 (approximately US\$4,381,000).....	—	—	—
HK\$40,000,001 (approximately US\$4,381,000) to HK\$41,000,000 (approximately US\$4,489,000).....	—	—	—
HK\$41,000,001 (approximately US\$4,489,000) to HK\$42,000,000 (approximately US\$4,597,000).....	—	—	—
HK\$42,000,001 (approximately US\$4,597,000) to HK\$43,000,000 (approximately US\$4,705,000).....	—	—	—
HK\$43,000,001 (approximately US\$4,705,000) to HK\$44,000,000 (approximately US\$4,813,000).....	—	—	—
HK\$44,000,001 (approximately US\$4,813,000) to HK\$45,000,000 (approximately US\$4,921,000).....	—	—	—
HK\$45,000,001 (approximately US\$4,921,000) to HK\$46,000,000 (approximately US\$5,029,000).....	—	—	—
HK\$46,000,001 (approximately US\$5,029,000) to HK\$47,000,000 (approximately US\$5,137,000).....	—	—	—
HK\$47,000,001 (approximately US\$5,137,000) to HK\$48,000,000 (approximately US\$5,245,000).....	—	—	—
HK\$48,000,001 (approximately US\$5,245,000) to HK\$49,000,000 (approximately US\$5,353,000).....	—	—	—
HK\$49,000,001 (approximately US\$5,353,000) to HK\$50,000,000 (approximately US\$5,461,000).....	—	—	—
HK\$50,000,001 (approximately US\$5,461,000) to HK\$51,000,000 (approximately US\$5,569,000).....	—	—	—
HK\$51,000,001 (approximately US\$5,569,000) to HK\$52,000,000 (approximately US\$5,677,000).....	—	—	—
HK\$52,000,001 (approximately US\$5,677,000) to HK\$53,000,000 (approximately US\$5,785,000).....	—	—	—
HK\$53,000,001 (approximately US\$5,785,000) to HK\$54,000,000 (approximately US\$5,893,000).....	—	—	—
HK\$54,000,001 (approximately US\$5,893,000) to HK\$55,000,000 (approximately US\$6,001,000).....	—	—	—
HK\$55,000,001 (approximately US\$6,001,000) to HK\$56,000,000 (approximately US\$6,109,000).....	—	—	—
HK\$56,000,001 (approximately US\$6,109,000) to HK\$57,000,000 (approximately US\$6,217,000).....	—	—	—
HK\$57,000,001 (approximately US\$6,217,000) to HK\$58,000,000 (approximately US\$6,325,000).....	—	—	—
HK\$58,000,001 (approximately US\$6,325,000) to HK\$59,000,000 (approximately US\$6,433,000).....	—	—	—
HK\$59,000,001 (approximately US\$6,433,000) to HK\$60,000,000 (approximately US\$6,541,000).....	—	—	—
HK\$60,000,001 (approximately US\$6,541,000) to HK\$61,000,000 (approximately US\$6,649,000).....	—	—	—
HK\$61,000,001 (approximately US\$6,649,000) to HK\$62,000,000 (approximately US\$6,757,000).....	—	—	—
HK\$62,000,001 (approximately US\$6,757,000) to HK\$63,000,000 (approximately US\$6,865,000).....	—	—	—
HK\$63,000,001 (approximately US\$6,865,000) to HK\$64,000,000 (approximately US\$6,973,000).....	—	—	—
HK\$64,000,001 (approximately US\$6,973,000) to HK\$65,000,000 (approximately US\$7,081,000).....	—	—	—
HK\$65,000,001 (approximately US\$7,081,000) to HK\$66,000,000 (approximately US\$7,189,000).....	—	—	—
HK\$66,000,001 (approximately US\$7,189,000) to HK\$67,000,000 (approximately US\$7,297,000).....	—	—	—
HK\$67,000,001 (approximately US\$7,297,000) to HK\$68,000,000 (approximately US\$7,405,000).....	—	—	—
HK\$68,000,001 (approximately US\$7,405,000) to HK\$69,000,000 (approximately US\$7,513,000).....	—	—	—
HK\$69,000,001 (approximately US\$7,513,000) to HK\$70,000,000 (approximately US\$7,621,000).....	—	—	—
HK\$70,000,001 (approximately US\$7,621,000) to HK\$71,000,000 (approximately US\$7,729,000).....	—	—	—
HK\$71,000,001 (approximately US\$7,729,000) to HK\$72,000,000 (approximately US\$7,837,000).....	—	—	—
HK\$72,000,001 (approximately US\$7,837,000) to HK\$73,000,000 (approximately US\$7,945,000).....	—	—	—
HK\$73,000,001 (approximately US\$7,945,000) to HK\$74,000,000 (approximately US\$8,053,000).....	—	—	—
HK\$74,000,001 (approximately US\$8,053,000) to HK\$75,000,000 (approximately US\$8,161,000).....	—	—	—
HK\$75,000,001 (approximately US\$8,161,000) to HK\$76,000,000 (approximately US\$8,269,000).....	—	—	—
HK\$76,000,001 (approximately US\$8,269,000) to HK\$77,000,000 (approximately US\$8,377,000).....	—	—	—
HK\$77,000,001 (approximately US\$8,377,000) to HK\$78,000,000 (approximately US\$8,485,000).....	—	—	—
HK\$78,000,001 (approximately US\$8,485,000) to HK\$79,000,000 (approximately US\$8,593,000).....	—	—	—
HK\$79,000,001 (approximately US\$8,593,000) to HK\$80,000,000 (approximately US\$8,701,000).....	—	—	—
HK\$80,000,001 (approximately US\$8,701,000) to HK\$81,000,000 (approximately US\$8,809,000).....	—	—	—
HK\$81,000,001 (approximately US\$8,809,000) to HK\$82,000,000 (approximately US\$8,917,000).....	—	—	—
HK\$82,000,001 (approximately US\$8,917,000) to HK\$83,000,000 (approximately US\$9,025,000).....	—	—	—
HK\$83,000,001 (approximately US\$9,025,000) to HK\$84,000,000 (approximately US\$9,133,000).....	—	—	—
HK\$84,000,001 (approximately US\$9,133,000) to HK\$85,000,000 (approximately US\$9,241,000).....	—	—	—
HK\$85,000,001 (approximately US\$9,241,000) to HK\$86,000,000 (approximately US\$9,349,000).....	—	—	—
HK\$86,000,001 (approximately US\$9,349,000) to HK\$87,000,000 (approximately US\$9,457,000).....	—	—	—
HK\$87,000,001 (approximately US\$9,457,000) to HK\$88,000,000 (approximately US\$9,565,000).....	—	—	—
HK\$88,000,001 (approximately US\$9,565,000) to HK\$89,000,000 (approximately US\$9,673,000).....	—	—	—
HK\$89,000,001 (approximately US\$9,673,000) to HK\$90,000,000 (approximately US\$9,781,000).....	—	—	—
HK\$90,000,001 (approximately US\$9,781,000) to HK\$91,000,000 (approximately US\$9,889,000).....	—	—	—
HK\$91,000,001 (approximately US\$9,889,000) to HK\$92,000,000 (approximately US\$9,997,000).....	—	—	—
HK\$92,000,001 (approximately US\$9,997,000) to HK\$93,000,000 (approximately US\$10,105,000).....	—	—	—
HK\$93,000,001 (approximately US\$10,105,000) to HK\$94,000,000 (approximately US\$10,213,000).....	—	—	—
HK\$94,000,001 (approximately US\$10,213,000) to HK\$95,000,000 (approximately US\$10,321,000).....	—	—	—
HK\$95,000,001 (approximately US\$10,321,000) to HK\$96,000,000 (approximately US\$10,429,000).....	—	—	—
HK\$96,000,001 (approximately US\$10,429,000) to HK\$97,000,000 (approximately US\$10,537,000).....	—	—	—
HK\$97,000,001 (approximately US\$10,537,000) to HK\$98,000,000 (approximately US\$10,645,000).....	—	—	—
HK\$98,000,001 (approximately US\$10,645,000) to HK\$99,000,000 (approximately US\$10,753,000).....	—	—	—
HK\$99,000,001 (approximately US\$10,753,000) to HK\$100,000,000 (approximately US\$10,861,000).....	—	—	—
HK\$100,000,001 (approximately US\$10,861,000) to HK\$101,000,000 (approximately US\$10,969,000).....	—	—	—
HK\$101,000,001 (approximately US\$10,969,000) to HK\$102,000,000 (approximately US\$11,077,000).....	—	—	—
HK\$102,000,001 (approximately US\$11,077,000) to HK\$103,000,000 (approximately US\$11,185,000).....	—	—	—
HK\$103,000,001 (approximately US\$11,185,000) to HK\$104,000,000 (approximately US\$11,293,000).....	—	—	—
HK\$104,000,001 (approximately US\$11,293,000) to HK\$105,000,000 (approximately US\$11,401,000).....	—	—	—
HK\$105,000,001 (approximately US\$11,401,000) to HK\$106,000,000 (approximately US\$11,509,000).....	—	—	—
HK\$106,000,001 (approximately US\$11,509,000) to HK\$107,000,000 (approximately US\$11,617,000).....	—	—	—
HK\$107,000,001 (approximately US\$11,617,000) to HK\$108,000,000 (approximately US\$11,725,000).....	—	—	—
HK\$108,000,001 (approximately US\$11,725,000) to HK\$109,000,000 (approximately US\$11,833,000).....	—	—	—
HK\$109,000,001 (approximately US\$11,833,000) to HK\$110,000,000 (approximately US\$11,941,000).....	—	—	—
HK\$110,000,001 (approximately US\$11,941,000) to HK\$111,000,000 (approximately US\$12,049,000).....	—	—	—
HK\$111,000,001 (approximately US\$12,049,000) to HK\$112,000,000 (approximately US\$12,157,000).....	—	—	—
HK\$112,000,001 (approximately US\$12,157,000) to HK\$113,000,000 (approximately US\$12,265,000).....	—	—	—
HK\$113,000,001 (approximately US\$12,265,000) to HK\$114,000,000 (approximately US\$12,373,000).....	—	—	—
HK\$114,000,001 (approximately US\$12,373,000) to HK\$115,000,000 (approximately US\$12,481,000).....	—	—	—
HK\$115,000,001 (approximately US\$12,481,000) to HK\$116,000,000 (approximately US\$12,589,000).....	—	—	—
HK\$116,000,001 (approximately US\$12,589,000) to HK\$117,000,000 (approximately US\$12,697,000).....	—	—	—
HK\$117,000,001 (approximately US\$12,697,000) to HK\$118,000,000 (approximately US\$12,805,000).....	—	—	—
HK\$118,000,001 (approximately US\$12,805,000) to HK\$119,000,000 (approximately US\$12,913,000).....	—	—	—
HK\$119,000,001 (approximately US\$12,913,000) to HK\$120,000,000 (approximately US\$13,021,000).....	—	—	—
HK\$120,000,001 (approximately US\$13,021,000) to HK\$121,000,000 (approximately US\$13,129,000).....	—	—	—
HK\$121,000,001 (approximately US\$13,129,000) to HK\$122,000,000 (approximately US\$13,237,000).....	—	—	—
HK\$122,000,001 (approximately US\$13,237,000) to HK\$123,000,000 (approximately US\$13,345,000).....	—	—	—
HK\$123,000,001 (approximately US\$13,345,000) to HK\$124,000,000 (approximately US\$13,453,000).....	—	—	—
HK\$124,000,001 (approximately US\$13,453,000) to HK\$125,000,000			

The five individuals whose emoluments were the highest in the Group for the Relevant Periods include three directors whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Basic salaries, other allowances and benefits in kind	246	246	470
Discretionary bonus	23	87	100
Retirement benefit scheme contributions	11	11	11
	<u>280</u>	<u>344</u>	<u>581</u>

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

The emoluments fell within the following bands:

	Number of individuals		
	Year ended 31 December		
	2001	2002	2003
Nil to HK\$1,000,000 (approximately US\$128,000).....	1	—	—
HK\$1,000,001 (approximately US\$128,000) to HK\$1,500,000 (approximately US\$192,000)	1	1	—
HK\$1,500,001 (approximately US\$192,000) to HK\$2,000,000 (approximately US\$256,000)	—	1	—
HK\$2,000,001 (approximately US\$256,000) to HK\$2,500,000 (approximately US\$321,000)	—	—	2
	<u>2</u>	<u>2</u>	<u>2</u>

(c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12 Retirement benefit schemes

All Hong Kong employees participate in the Mandatory Provident Fund (the "MPF scheme"), a defined contribution scheme managed by an independent trustee. Under the rules of the MPF scheme, the Group and each of the employee make monthly contributions to the scheme at 5% of the employees' gross earnings, subject to a maximum of HK\$1,000 per month per employee. No forfeited contribution is available to reduce the contribution payable in future years.

Employees working in the PRC join employee pension schemes established by municipal government in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contribution to these defined contribution pension schemes are charged to the consolidated profit and loss account as incurred.

13 Fixed assets

	Leasehold improvements	Furniture, fixtures and office equipment	Machinery and laboratory equipment	Motor vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 January 2001	372	1,605	479	22	2,478
Exchange adjustment	1	1	—	—	2
Additions.....	—	361	173	—	534
Disposals	—	(3)	—	—	(3)
Disposal of a subsidiary	(61)	(135)	(4)	—	(200)
At 31 December 2001 and 1 January 2002	312	1,829	648	22	2,811
Additions	5	89	924	—	1,018
Disposals	—	(18)	—	—	(18)
At 31 December 2002 and 1 January 2003	317	1,900	1,572	22	3,811
Acquisition of a subsidiary	—	209	—	—	209
Additions	1,249	1,817	1,749	127	4,942
Disposals	—	(89)	—	(22)	(111)
At 31 December 2003	1,566	3,837	3,321	127	8,851
Accumulated depreciation					
At 1 January 2001	126	608	97	10	841
Charge for the year	129	602	134	7	872
Disposals	—	(1)	—	—	(1)
Disposal of a subsidiary	(17)	(26)	(1)	—	(44)
At 31 December 2001 and 1 January 2002	238	1,183	230	17	1,668
Charge for the year	79	464	147	5	695
Disposals	—	(17)	—	—	(17)
At 31 December 2002 and 1 January 2003	317	1,630	377	22	2,346
Charge for the year	122	606	328	35	1,091
Disposals	—	(54)	—	(22)	(76)
At 31 December 2003	439	2,182	705	35	3,361
Net book value					
At 31 December 2003	1,127	1,655	2,616	92	5,490
At 31 December 2002	—	270	1,195	—	1,465
At 31 December 2001	74	646	418	5	1,143

At 31 December 2001, 2002 and 2003, the aggregate net book value of office equipment held by the Group under finance leases amounted to US\$8,000, US\$2,000 and US\$ nil respectively.

14 Patents and intellectual property

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January and 31 December	4,500	4,500	4,500
Accumulated amortisation			
At 1 January	1,125	2,025	2,925
Amortisation charge (note 5)	900	900	900
At 31 December	2,025	2,925	3,825
Net book value at 31 December	2,475	1,575	675

15 Investment in subsidiaries

	Company
	As at 31 December 2003
	US\$'000
Unlisted shares, at cost	49,916

The balance due from a subsidiary is unsecured, interest-free and repayable on demand.

16 Goodwill

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January	500	500	500
Acquisition of subsidiaries (note 27(b))	—	—	433
At 31 December	500	500	933
Accumulated amortisation			
At 1 January	125	225	325
Amortisation charge (note 5)	100	100	317
At 31 December	225	325	642
Net book value at 31 December	275	175	291

17 Investment securities

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Unlisted shares, at cost	848	848	848
Provision for impairment loss (note 5)	—	(848)	(848)
	<u>848</u>	<u>—</u>	<u>—</u>

18 Inventories

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Finished goods	791	802	2,285
Raw materials	3,222	4,447	11,842
Goods-in-transit	158	—	—
	<u>4,171</u>	<u>5,249</u>	<u>14,127</u>
Less: Provision for obsolete inventories	(950)	(276)	(1,044)
	<u>3,221</u>	<u>4,973</u>	<u>13,083</u>

As at 31 December 2001, 2002 and 2003, the carrying amount of inventories that are carried at net realisable value amounted to US\$2,622,000, US\$nil and US\$nil respectively.

19 Accounts and bills receivables

The Group's sales to corporate customers are entered into on credit terms of 30 days. The ageing analysis of trade and bills receivables at the respective balance sheet dates was as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
0 - 30 days	2,964	12,678	17,518
31 - 60 days	2	1,540	3,241
61 - 90 days	10	211	49
91 - 120 days	9	88	52
121 - 365 days	27	18	—
	<u>3,012</u>	<u>14,535</u>	<u>20,860</u>

20 Balances with related companies

Particulars of amounts due from/to related companies are as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Amounts due from related companies			
Solomon Technology Corp. ("STC"), a former shareholder of SSL	4,691	—	—
Subsidiaries of STC:			
SM Communications (HK) Ltd.....	3	—	—
Solomon Wireless Tech. Corp.....	635	—	—
Solomon Goldentek Display Corp.	8	—	—
Solomon QCE Ltd.	271	—	—
Other related company			
SSSZ	151	103	—
	<u>5,759</u>	<u>103</u>	<u>—</u>
Amounts due to related companies			
Subsidiaries of STC:			
Solomon Technology (USA) Corp.	24	—	—
United Test Center Inc.....	67	—	—
	<u>91</u>	<u>—</u>	<u>—</u>

(a) STC and its subsidiaries ceased to be related parties to the Group after STC disposed of majority of its equity interests in SSL in December 2002.

(b) SSSZ was a subsidiary of the Group up to 28 September 2001 when it was disposed of to a related company, STCL, which Mr. Leung Kwong Wai, the director and shareholder of the Company, had beneficial interests. On 20 February 2003, the Group acquired the entire interest in STCL, and accordingly, STCL and SSSZ became subsidiaries of the Group since then.

The amounts due from/to related companies are mostly trade-related. They are unsecured, interest-free and have no fixed terms of repayment.

21 Accounts payable

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

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
0 - 30 days	3,339	10,380	18,299
31 - 60 days	—	93	170
61 - 90 days	—	75	7
91 - 365 days	—	3	—
Over 365 days	—	12	—
	<u>3,339</u>	<u>10,563</u>	<u>18,476</u>

22 Accrued charges and other payables

At 31 December 2003, share purchase costs for employees amounted to US\$2,652,000 were accrued and included in accrued charges and other payables.

Pursuant to a share purchase scheme adopted in 2003 (the "Share Purchase Scheme"), certain employees, including the Directors of the Company, have been granted share options by a group of eight shareholders under the management of China International Development Consulting Inc. ("CIDC funds"), for the acquisition of certain CIDC funds' shares in the Company. The Group has undertaken to fund the acquisition if certain performance targets stipulated in the Share Purchase Scheme have been achieved. As the relevant performance targets have been met in 2003, cost for exercising these share options of approximately US\$2,652,000 was required to be funded by the Group and was therefore charged to the consolidated profit and loss account for the year ended 31 December 2003.

23 Obligations under finance leases

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Wholly repayable within five years	15	10	5
Current portion	(5)	(5)	(4)
	<u>10</u>	<u>5</u>	<u>1</u>

The Group's finance lease liabilities were repayable as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Within one year	7	7	5
In the second to fifth year	14	7	2
	<u>21</u>	<u>14</u>	<u>7</u>
Future finance charges on finance leases	(6)	(4)	(2)
Present value of finance lease liabilities	<u>15</u>	<u>10</u>	<u>5</u>
The present value of finance lease liabilities is as follows:			
Within one year	5	5	4
In the second to fifth year	10	5	1
	<u>15</u>	<u>10</u>	<u>5</u>

24 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16%, 16% and 17.5% for the three years ended 31 December 2001, 2002 and 2003 respectively.

The movement on the deferred tax liabilities are as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
At 1 January	721	520	526
(Credited)/charged to consolidated profit and loss account (note 8)	(201)	6	61
At 31 December	<u>520</u>	<u>526</u>	<u>587</u>

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

	Accelerated tax depreciation
	US\$'000
At 1 January 2001	721
Credited to consolidated profit and loss account	(201)
At 31 December 2001	520
Charged to consolidated profit and loss account	6
At 31 December 2002	526
Charged to consolidated profit and loss account	61
At 31 December 2003	587

25 Share capital

	2003	
	Number of shares	US\$'000
Ordinary shares of HK\$0.10 each		
Authorised	5,000,000,000	64,433
Issued and fully paid		
Issue of shares	1,885,852,711	24,302
At 31 December	1,885,852,711	24,302

Note:

- (a) The Company was incorporated in the Cayman Islands on 21 November 2003 with an authorised share capital of HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.10 each. On 17 December 2003, one share was allotted and issued for cash at par.
- (b) Pursuant to the Reorganisation took place on 23 December 2003 for the preparation for the listing of the Company's shares on the Stock Exchange, 1,885,852,710 ordinary shares were issued and allotted in consideration of the acquisition by the Company of the entire issued share capital of SSL, credited as fully paid to the then shareholders of SSL.
- (c) On 22 March 2004, a total number of 44,000,000 shares were allotted and issued at par to HSBC International Trustee Limited ("HSBC Trustee"), a new trustee for the Group's employees, under the Share Award Plan which was adopted on 19 March 2004. The Company was authorised to capitalise a total of HK\$4,400,000 from its retained earnings and to apply such sum to pay up in full the said 44,000,000 shares of the Company.
- (d) On 22 March 2004, a total number of 70,000,000 shares were allotted and issued at par to Cardio Investments Limited ("Cardio"), another new trustee for the Group's employees, under the Pre-IPO Loyalty Plan which was adopted on 19 March 2004. The Company was authorised to capitalise a total of HK\$7,000,000 from its retained earnings and to apply such sum to pay up in full the said 70,000,000 shares of the Company.
- (e) On 22 March 2004, a total number of 75,000,000 shares were allotted and issued at par to HSBC Trustee under the Pre-IPO Stock Reward Scheme which was adopted on 19 March 2004. The Company was authorised to capitalise a total of HK\$7,500,000 from its retained earnings and to apply such sum to pay up in full the said 75,000,000 shares of the Company.
- (f) On 19 March 2004, the Pre-IPO Share Option Scheme was approved and adopted. Certain employees and directors of the Company were granted options to subscribe for an aggregate of 6,300,000 new shares of the Company at the price paid by the public for the subscription of the Company's shares in connection with the initial listing of the Company's shares on the Stock Exchange. A nominal consideration at HK\$1 was paid by the employees and directors for each lot of share options granted.

26 Reserves**(a) Group**

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Merger reserve.....	2,082	2,082	2,082
Exchange reserve.....	—	—	(1)
Retained earnings.....	3,226	7,650	23,533
	<u>5,308</u>	<u>9,732</u>	<u>25,614</u>

Note:

(i) Retained earnings of the Group comprise:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
2002 final dividend proposed.....	—	6,122	—
Others.....	3,226	1,528	23,533
	<u>3,226</u>	<u>7,650</u>	<u>23,533</u>

(ii) The merger reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

(b) Company

	Share premium	Retained earnings	Total
	US\$'000	US\$'000	US\$'000
Premium on issue of ordinary shares.....	25,614	—	25,614
Profit for the period (note).....	—	18,408	18,408
At 31 December 2003.....	<u>25,614</u>	<u>18,408</u>	<u>44,022</u>

Note: The profit for the period of the Company represents principally the dividend income from its subsidiary amounting to approximately US\$18,408,000.

27 Notes to consolidated cash flow statements

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

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Profit before taxation	3,149	8,236	27,721
Depreciation of fixed assets	872	695	1,091
Amortisation of patents and intellectual property	900	900	900
Amortisation of goodwill	100	100	317
Loss on disposal of fixed assets	—	—	1
Gain on disposal of interest in a subsidiary	(273)	—	—
Impairment loss of investment securities	—	848	—
Interest income	(317)	(97)	(67)
Interest expenses	30	—	—
Interest element of finance lease rental payments	2	2	2
Operating profit before working capital changes	4,463	10,684	29,965
(Increase)/decrease in accounts and bills receivable, prepayments and deposits	484	(6,981)	(8,291)
(Increase)/decrease in inventories	2,415	(1,752)	(8,110)
Increase/(decrease) in accounts payable, bills payable, accrued charges and other payables	(5,783)	9,576	13,761
Net (increase)/decrease in balances with related companies	(506)	3,888	1,781
Net cash inflow generated from operations	1,073	15,415	29,106

(b) Acquisition of subsidiaries

	Year ended
	31 December 2003
	US\$'000
Net liabilities acquired:	
Fixed assets	209
Prepayment and other receivables	60
Bank balances and cash	45
Accrued charges and other payables	(220)
Loan from the then shareholders of SSSZ	(526)
	(432)
Goodwill	433
	1
Satisfied by:	
Cash	1

The subsidiaries acquired during the year contributed US\$665,000 to the Group's operating net cash outflows and utilised US\$122,000 for investing activities.

Analysis of the net inflow in respect of the purchase of subsidiaries:

	Year ended 31 December 2003
	US\$'000
Cash consideration	(1)
Bank balances and cash acquired	45
Net cash inflow in respect of the purchase of subsidiaries	<u>44</u>

(c) Disposal of a subsidiary

	Year ended 31 December	
	2001	2003
	US\$'000	US\$'000
Net assets disposed of:		
Fixed assets	155	—
Prepayment and other receivables	42	—
Bank balances and cash	10	1
Accrued charges and other payables	(28)	—
Amount due to a related company	(131)	—
	<u>48</u>	<u>1</u>
Gain on disposal	273	—
	<u>321</u>	<u>1</u>
Satisfied by:		
Cash	<u>321</u>	<u>1</u>

Analysis of the net inflow in respect of the disposal of a subsidiary:

	Year ended 31 December	
	2001	2003
	US\$'000	US\$'000
Cash consideration	321	1
Bank balances and cash disposed	(10)	(1)
Net cash inflow in respect of the disposal of a subsidiary	<u>311</u>	<u>—</u>

28. Equity compensation plans

By ordinary resolutions passed on 22 June 2001, 29 June 2002 and 14 April 2003, 5,000,000 shares and 9,816,900 shares (before bonus issue adjustment) of SSL have been issued and allotted under the Founder Plan and the Reward Scheme respectively. The movement of the shares held by Trustee under the Founder Plan and the Reward Scheme is as follows:

	For the year ended 31 December		
	2001	2002	2003
Unvested shares held by the Trustee at 1 January 2001, 2002 and 2003	—	8,689,000	7,695,328
Issue of shares of SSL for the Founder Plan	5,000,000	—	—
Issue of shares of SSL for the Reward Scheme	2,689,000	1,832,900	5,295,000
Bonus shares issued by SSL	1,000,000	868,900	—
Distributed to employees	—	(3,695,472)	(7,122,976)
	<u>8,689,000</u>	<u>7,695,328</u>	<u>5,867,352</u>
Conversion of outstanding shares in SSL into shares of the Company (See note below)			58,673,520
Shares transferred to Cardio Investments Limited ("Cardio") and became vested (See note below)			<u>(56,450,000)</u>
Unvested shares held by the Trustee at 31 December 2001, 2002 and 2003			
Shares in SSL	<u>8,689,000</u>	<u>7,695,328</u>	
Shares in the Company			<u>2,223,520</u>

Note: Pursuant to the Reorganisation, which was completed on 23 December 2003, the Company acquired the entire issued share capital of SSL from its then shareholders through the issuance of the Company's shares in the ratio of one share in SSL for ten shares in the Company. On the same date, the unvested 56,450,000 shares of the Company held by the Trustee were transferred to Cardio, a new trustee for the Group's employees, and became vested.

The directors of the Company are in the opinion that the fair value of the shares issued under various equity compensation plans cannot be estimated reliably as there was no active market prices for these shares at the time of the issuance.

29 Related party transactions

The Group had the following material transactions with related parties during the Relevant Periods:

	Notes	Year ended 31 December		
		2001	2002	2003
		US\$'000	US\$'000	US\$'000
With STC (note (f))				
Sales to STC	(a)	2,962	8,263	—
Management fee paid to STC	(b)	105	54	—
Consultancy fees paid to STC.....	(c)	69	82	—
With STC's subsidiaries (note (f))				
Sales to Solomon QCE Limited	(a)	2,260	4,567	—
Sales to Goldentek Display Corp.	(a)	11	—	—
Consultancy fees paid to Solomon Technology (USA) Corp.	(c)	203	196	—
Consultancy fees paid to Solomon Group (USA) Corp.	(c)	10	40	—
Consultancy fees paid to Solomon Wireless Tech. Corp.	(c)	66	—	—
Rental expenses paid to Solomon Microtech Ltd.....	(d)	22	12	—
Commission paid to Solomon Electronic Co. Ltd.....	(e)	—	270	—
With other related company				
Research and development costs paid to SSSZ.....	(g)	134	542	84

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business.

- (a) Sales were conducted at prices and terms no less than those charged to and contracted with other third party customers of the Group.
- (b) The Group received management services from STC and the management fee was determined on a cost reimbursement basis.
- (c) The consultancy fees were determined on a cost reimbursement basis.
- (d) Rental expenses were charged based on the net floor area occupied by the Group with reference to the market rental.
- (e) Commission paid was charged at pre-determined percentage of the invoiced sales amount.
- (f) STC and its subsidiaries ceased to be related parties to the Group after STC disposed majority of its equity interests in SSL in December 2002.
- (g) The research and development costs are determined on a cost-plus basis.
- (h) On 28 September 2001, the Group disposed of its entire 100% interest in a subsidiary, SSSZ, to a related company, STCL, for a total consideration of US\$321,000. The Group realised a gain of US\$273,000 on this transaction.
- (i) On 20 February 2003, the Group acquired the entire interest in STCL at a consideration of US\$1,000. A goodwill of US\$433,000 arose.
- (j) On 24 December 2003, the Group disposed of its entire 100% interest in Solomon Systech (BVI) Limited ("SSBVI") for a total consideration of US\$1 which represented the net book value of SSBVI at the date of disposal.

30 Commitments**(a) Group**

Capital commitment for property, plant and equipment

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Contracted but not provided for	—	—	4,141

Commitment under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Not later than one year	306	127	321
Later than one year and not later than five years.....	—	13	1,405
Later than five years	—	—	151
	<u>306</u>	<u>140</u>	<u>1,877</u>

(b) Company

The Company had no material commitments at 31 December 2003.

31 Banking facilities

At 31 December 2003, the banking facilities amounting to approximately US\$7,165,000 granted to the company and the Group were secured by the pledge of bank deposits of US\$3,183,000 respectively.

32 Distributable reserves

As at 31 December 2003, the Company had distributable reserves of approximately US\$44,022,000 comprising share premium reserve of approximately US\$25,614,000 and retained earnings of approximately US\$18,408,000. Share premium reserve is available for distribution subject to solvency test.

33 Contingent liabilities

The Group and the Company had no material contingent liabilities as at 31 December 2001, 2002 and 2003.

III SUBSEQUENT EVENTS

On 3 February 2004, the Company declared an interim dividend of HK\$0.066 per share, totalling US\$16,000,000 which was paid on 1 March 2004.

Apart from those disclosed above and in note 25 under Section II in this report, there is no material event took place after 31 December 2003.

IV SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 31 December 2003. Except as disclosed under Section III, no other dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December 2003.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of the letter, a summary of valuation and the valuation certificate received from Chesterton Petty Ltd, an independent property valuer, prepared for the purpose for incorporation in this prospectus, in connection with their valuation of the property interests held by the Company and its subsidiaries as at 25 March 2004



International Property Consultants

Chesterton Petty Limited
16/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

25 March 2004

The Directors
Solomon Systech (International) Limited
5th and 6th Floor
Building 4b, Phase One
3 Science Park East Avenue
Hong Kong Science Park
Pak Shek Kok, Tai Po
New Territories
Hong Kong

Dear Sirs

In accordance with your instructions for us to value the property interests held by Solomon Systech (International) Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") in Hong Kong, Taiwan, Japan and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31 January 2004.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

The properties which are rented by the Group have no commercial value due to the lack of substantial profit rents or otherwise the prohibition against assignment or sub-letting.

We have been provided with copies of extracts of lease documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. For the properties located in the PRC, we have relied on the information given by the Group and its legal advisers on the PRC laws, Global Law Office, regarding the title and other legal matters relating to these properties.

We have relied to a considerable extent on the information given by the Group and the legal opinion of the Group's PRC legal advisers. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its PRC legal advisers which is material to the valuation. We have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, ownership, completion date of building, tenancy particulars, particulars of occupancy, floor area and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the correctness of the site and floor areas of the properties and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our summary of values and valuation certificate are attached.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Executive Director

Note: Charles C K Chan, Chartered Estate Surveyor, M S c., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), has been a qualified valuer with Chesterton Petty Limited since June 1987 and has about 19 years' experience in the valuation of property in Hong Kong and has extensive experience in the valuation of property in the People's Republic of China and Asia Pacific Region.

SUMMARY OF VALUATION

Property	Open market value in existing state as at 31 January 2004
Group I — Property interest rented by the Group in Hong Kong	
1. 5th and 6th Floor Building 4b (Wireless Centre), Phase One 3 Science Park East Avenue Hong Kong Science Park Pak Shek Kok, Tai Po New Territories Hong Kong	No commercial value
Group II — Property interest rented by the Group in Taiwan	
2. 5th Floor and 2 car parking spaces 42 Sing Zhong Road Neihu District Taipei Taiwan	No commercial value
Group III — Property interest rented by the Group in Japan	
3. Portion of 18th Floor Yebisu Garden Place Tower 4-20-3 Ebisu Shibuya-ku Tokyo 150-6018 Japan	No commercial value
Group IV — Property interests rented by the Group in the PRC	
4. Unit No. W901 South Wing Level 9 Block West IER Building Shenzhen New and High Technology Industrial Park Shenzhen 518057 Guangdong Province The PRC	No commercial value
5. Portion of Unit 1418 800 Shangcheng Road Pudong New Area Shanghai 200120 The PRC	No commercial value

VALUATION CERTIFICATE

Group I — Property interest rented by the Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Open market value in existing state as at 31 January 2004
1 5th and 6th Floor Building 4b (Wireless Centre) Phase One 3 Science Park East Avenue Hong Kong Science Park Pak Shek Kok, Tai Po New Territories Hong Kong	<p>Hong Kong Science Park is a large scale infrastructure providing a knowledge-based environment to high-technology enterprises and is divided into 3 phases.</p> <p>The property comprises the 5th and 6th Floor of Building 4b (Wireless Centre) of Phase I of the development which is a 7-storey (including a carparking basement) industrial/office building completed in 2003. The total saleable area of the property is approximately 3,293.57 sq m (35,452 sq ft) or thereabouts.</p> <p>The property is currently leased under a lease agreement for a term of 6 years commencing from 30 May 2003 and expiring on 29 May 2009 at a monthly rent of HK\$237,160.40 for the first 3 years exclusive of management fee, rates and service charges and subject to rent review for the 4th to 6th year of the lease term.</p>	The property is occupied by the Group as research centre and office.	No commercial value

Note: The property has no commercial value due to the lack of substantial profit rent or otherwise the prohibition against assignment or sub-letting.

Group II — Property interests rented by the Group in Taiwan

Property	Description and Tenure	Particulars of Occupancy	Open market value in existing state as at 31 January 2004
2 5th Floor and 2 car parking spaces 42 Sing Zhong Road Neihu District Taipei Taiwan	<p>The property comprises the 5th floor and 2 car parking spaces of a 7-storey office building with a 2-level car park basement completed in 2000.</p> <p>The office area of the property has a gross floor area of approximately 215.54 sq m (2,320 sq ft).</p> <p>The property is current rented under a tenancy agreement for a term of 2 years commencing from 1 July 2002 to 30 June 2004 at monthly rent of NT\$71,720 for the office area and NT\$2,000 for the car parking spaces exclusive of rates, management fee and service charges.</p>	The property is currently occupied by the Group as office and car parking spaces.	No commercial value

Note: The property has no commercial value due to the lack of substantial profit rent or otherwise the prohibition against assignment or sub-letting.

Group III — Property interest rented by the Group in Japan

	Property	Description and Tenure	Particulars of Occupancy	Open market value in existing state as at 31 January 2004
3	18th Floor Yebisu Garden Place Tower 4-20-3 Ebisu Shibuya-ku Tokyo 150-6018 Japan	The property comprises portion of the 18th floor of a 40-storey office building completed in 1994. The property has an area of approximately 18 sq m (194 sq ft). The property is currently rented under a tenancy agreement for a term of 6 months commencing from 5 January 2004 and expiring on 4 July 2004 at a monthly rent of ¥710,000 exclusive of charges.	The property is occupied by the Group as office.	No commercial value

Note: The property has no commercial value due to the lack of substantial profit rent or otherwise the prohibition against assignment or sub-letting.

Group IV — Property interests rented by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Open market value in existing state as at 31 January 2004
4 Unit No. W901 South Wing Level 9 Block West IER Building Shenzhen New and High Technology Industrial Park Shenzhen Guangdong Province The PRC	<p>The property comprises an unit of a 9-storey research/ office building completed in 2001.</p> <p>The property has a gross floor area of approximately 600 sq m (6,458 sq ft).</p> <p>The property is currently rented under a tenancy agreement for a term of 3 years commencing from 16 July 2003 and expiring on 15 July 2006 at a monthly rent of RMB43,200 exclusive of management fee and service charges.</p>	The property is occupied by the Group as research centre and office.	No commercial value

Notes:

- (1) The property has no commercial value due to the lack of substantial profit rent or otherwise the prohibition against assignment or sub-letting.
- (2) According to the PRC legal opinion on the title to the property provided to us, the tenancy agreement is legal, valid and binding on both signing parties.

Property	Description and Tenure	Particulars of Occupancy	Open market value in existing state as at 31 January 2004
5 Portion of Unit 1418 800 Shangcheng Road Pudong New Area Shanghai The PRC	<p>The property comprises portion of an office unit on the 14th level of a 20-storey office building completed in 1997.</p> <p>The property has a gross floor area of approximately 37.00 sq m (398 sq ft).</p> <p>The property is currently rented under a tenancy agreement for a term of 1 year commencing from 1 September 2003 and expiring on 30 August 2004 at a monthly rent of RMB2,500 inclusive of management fee and service charges.</p>	The property is occupied by the Group as office.	No commercial value

Notes:

- (1) The property has no commercial value due to the lack of substantial profit rent or otherwise the prohibition against assignment or sub-letting.
- (2) According to the PRC legal opinion on the title to the property provided to us, the tenancy agreement is legal, valid and binding on both parties.

Set out below is a summary of certain provisions of the Memorandum and Articles and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 November 2003 under the Companies Law. The Memorandum and the Articles comprise its constitution.

(1) MEMORANDUM OF ASSOCIATION

Conditional upon the Listing, the Memorandum of Association of the Company was conditionally approved and adopted on 25 February 2004 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents delivered to the Registrar of Companies and available for inspection."

(2) ARTICLES OF ASSOCIATION

Conditional upon the Listing, the Articles of Association of the Company were conditionally approved and adopted on 25 February 2004 and include provisions to the following effect:

(A) Classes of Shares

The share capital of the Company consists of ordinary shares.

(B) Directors**(a) Power to allot and issue Shares**

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies

Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, the Director and any of his associates, are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (a) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (b) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director, or any of his is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(C) Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

(D) Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(E) Alteration of capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

(F) Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

(G) Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting for or against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or

(d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

(H) Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

(I) Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(J) Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (c) the declaration and sanctioning of dividends;
- (d) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (e) the election of Directors in place of those retiring;
- (f) the appointment of auditors;
- (g) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (h) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Stock Exchange Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to subparagraph (L) below; and
- (i) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

(K) Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Stock Exchange Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

(L) Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

(M) Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

(N) Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall

operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

(O) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(P) Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

(Q) Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Stock Exchange Listing Rules, by electronic communication in the manner in which notices may be served by the Company

by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Stock Exchange Listing Rules) as the Directors may determine for each inspection.

(R) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D. above.

(S) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

(T) Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist

of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

(U) Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Stock Exchange Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

(3) CAYMAN ISLANDS COMPANY LAW**Summary of Cayman Islands Company Law and Taxation****(A) Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(B) Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21st November, 2003 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

(C) Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be

transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(D) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

(E) Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

(F) Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

(G) Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

(H) Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(I) Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(J) Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(K) Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

(L) Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

(M) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

(N) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the

dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(O) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(P) Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

(Q) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(R) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Acting Governor in Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 2 December 2003.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(S) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(T) General

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

(1) FURTHER INFORMATION ABOUT OUR COMPANY**(A) Incorporation**

The Company was established as a limited liability company in the Cayman Islands under the Companies Law on 21 November 2003.

We are registered as an overseas company under Part XI of the Hong Kong Companies Ordinance and our principal place of business in Hong Kong is at 6/F, No. 3 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong. Leung Kwong Wai of Flat A1-1 Summit Court, 144 Tin Hau Temple Road, North Point, Hong Kong, the authorised representative of our Company for the purposes of Part XI of the Hong Kong Companies Ordinance, has been appointed as our agent for the acceptance of service of process and notices in Hong Kong.

As we are established in the Cayman Islands, our Company and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Articles of Association is set out in Appendix III.

(B) Changes in share capital of the Company

The Company was incorporated with an authorised share capital of HK\$500,000,000 divided into 5,000,000,000 Shares with a par value of HK\$0.10 each.

On 17 December 2003, one subscriber Share was transferred to and held by Leung Kwong Wai for cash at par.

On 23 December 2003, the Group underwent a reorganisation, details of which are set out in the section headed "The Reorganisation" below.

On 22 March 2004, 70,000,000 Shares and 119,000,000 Shares were allotted and issued to Cardio Investments Limited and HSBC International Trustee Limited, respectively, at par, credited as fully paid in connection with the Pre-IPO Loyalty Plan, pre-IPO share reward plan (being part of the Pre-IPO Stock Reward Scheme) and the Share Award Plan.

Immediately following the Global Offering becoming unconditional and the issue of Offer Shares as mentioned in this prospectus being made (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the subscription right attached to the options that have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option), the authorised share capital of the Company will be HK\$500,000,000 divided into 5,000,000,000 Shares, of which 2,414,318,351 Shares will be issued fully paid or credited as fully paid, and 2,585,681,649 Shares will remain unissued. Other than pursuant to the exercise of any options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, the Company does not have any present intention to issue any of the authorised but unissued share capital and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in the section entitled "Further Information about our Company — Resolutions passed at an extraordinary general meeting of the Company" in this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

(C) Changes in share capital of our subsidiaries

Our subsidiaries are set out in the Accountants' Report in Appendix I to this prospectus. The following alterations in the share capital or registered capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus.

Solomon Systech Limited

Pursuant to the annual general meeting of Solomon Systech Limited held on 24 June 2002, on 28 June 2002, a total of 16,496,122 ordinary shares of par value of HK\$1.00 each were allotted and issued at par, credited as fully paid, to the groups of persons or entities set out below, by way of capitalisation of the sums standing to the credit of the reserves account of Solomon Systech Limited. The particulars of the said allotment and issue on 28 June 2002 are as follows:

- (1) 1,622,650 ordinary shares were allotted and issued at par to Taiwan Special Opportunities Fund II;
- (2) 868,900 ordinary shares were allotted and issued at par to Solomon Systech (BVI) Limited;
- (3) 811,300 ordinary shares were allotted and issued at par to Wintek Technology (Cayman) Corporation;
- (4) 757,332 ordinary shares were allotted and issued at par to Wintek (B.V.I.) Corporation;
- (5) 342,125 ordinary shares were allotted and issued at par to Picvue Electronics, Limited;
- (6) 219,287 ordinary shares were allotted and issued at par to CDIB High Tech Investment Inc.;
- (7) 1,666,275 ordinary shares were allotted and issued at par to Extreme Performance Limited;
- (8) an aggregate of 6,922,711 ordinary shares were allotted and issued at par to Solomon Technology Corporation and its subsidiaries and associated corporations; and
- (9) an aggregate of 3,285,542 ordinary shares were allotted and issued at par to various directors, management members and employees of the Group, and various individual investors.

Pursuant to the annual general meeting of Solomon Systech Limited held on 24 June 2002, on 29 June 2002, 1,832,900 ordinary shares of par value of HK\$1.00 each were allotted and issued at par, credited as fully paid, to Solomon Systech (BVI) Limited, by way of capitalisation of the sums standing to the credit of the reserves account of Solomon Systech Limited.

Pursuant to the annual general meeting of Solomon Systech Limited held on 8 April 2003, on 14 April 2003, 5,295,000 ordinary shares of par value of HK\$1.00 each were allotted and issued at par, credited as fully paid, to Solomon Systech (BVI) Limited, by way of capitalisation of the sums standing to the credit of the reserves account of Solomon Systech Limited.

晶門科技(深圳)有限公司 (Solomon Systech (Shenzhen) Limited)

On 9 May 2003, 晶門科技(深圳)有限公司 (Solomon Systech (Shenzhen) Limited) increased its permitted registered capital from HK\$4,000,000 to HK\$8,000,000. On 17 June 2003, Systech Technology China Limited contributed a sum of HK\$4,000,000 as the increased amount in the registered capital of 晶門科技(深圳)有限公司 (Solomon Systech (Shenzhen) Limited).

Solomon Systech Inc.

On 24 March 2003, Solomon Systech Inc. was incorporated under the laws of the State of California, the United States with an authorised capital stock of 10,000,000 common shares, and on 10 April 2003, 20,000 common shares were allotted and issued to Solomon Systech Limited at a total consideration of US\$20,000.

Ample Pacific Limited

On 2 January 2004, Ample Pacific Limited was incorporated in British Virgin Islands, with an authorised share capital of US\$50,000, and on 25 February 2004, 50,000 ordinary shares of US\$1.00 each in Ample Pacific Limited were allotted and issued at par, credited as fully paid, to the Company.

(D) Changes in shareholding structure of Solomon Systech Limited

The changes in the shareholding structure of Solomon Systech Limited since October 1999 (up to the date immediately after the completion of the Global Offering, but assuming that the Over-allotment Option is not exercised) are set out in the chart below:

	October 1999 (upon establishment of Solomon Systech Limited) (Note 13)	June 2001 (after first series of disposals of shares by Solomon Technology Corporation ("STC")) (Note 13)	June 2002 (after second disposal of shares by STC) (Note 13)	December 2002 (after third disposal of shares by STC) (Note 13)	January 2003 (after last disposal of shares by STC) (Note 13)	December 2003 (immediately before Reorganisation) (Note 13)	Immediately before the Global Offering (Note 14)	Immediately after the Global Offering (Note 14)
Directors (Note 1).....	3.4%	3.6%	4.4%	4.6%	9.8%	11.1%	10.1%	8.1%
Senior Management (Note 2)	2.6%	2.8%	3.3%	4.4%	5.1%	5.7%	5.2%	3.6%
Other Employees (Note 3).....	1.7%	2.0%	2.4%	2.2%	2.9%	4.3%	3.9%	3.1%
Solomon Technology Corporation (Note 4).....	70.0%	52.1%	41.5%	6.5%	0.0%	0.0%	0.0%	0.0%
CIDC Funds (Note 5).....	0.0%	0.0%	0.0%	28.5%	28.5%	27.7%	25.2%	21.4%
CIDC Funds for Solomon Systech Limited employees (Note 5)...	0.0%	0.0%	0.0%	6.5%	6.5%	6.3%	0.0%	0.0%
Extreme Performance Limited (Note 6).....	0.0%	0.0%	10.0%	10.0%	10.0%	9.7%	8.8%	5.1%
Customers (Note 7).....	0.0%	11.6%	11.5%	11.5%	11.5%	11.1%	10.1%	7.0%
Trustee under Share Award Plan (Note 8).....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	1.9%
Trustee under Pre-IPO Loyalty Plan and Pre-IPO Stock Reward Scheme (Note 9).....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%	6.0%
Cardio Investments Limited under Pre-IPO Share Purchase Scheme and Pre-IPO Stock Reward Scheme (Note 10)	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	8.4%	7.2%
Others (Note 11).....	22.3%	27.9%	26.9%	25.8%	25.7%	21.1%	19.1%	11.6%

Notes:

- This category comprises six Directors, being Mr. Leung Kwong Wai, Mr. Huang Hsing-Hua, Mr. Lo Wai Ming, Mr. Lai Woon Ching, Mr. Chang Ching-Yi, Steven and Mr. Lam Pak-Lee.

Mr. Leung Kwong Wai, Mr. Lo Wai Ming and Mr. Lai Woon Ching first acquired their interests in Solomon Systech Limited ("SSL") in October 1999 by subscribing for shares of SSL of HK\$1.00 each ("SSL Shares") at par. Each of them subsequently increased his interest in SSL through subscription for SSL Shares (at a consideration of HK\$1.60 per SSL Share) and under rights issue (at a consideration of HK\$2 per SSL Share) in May 2001, under employee share scheme and bonus issues in June 2001 and June 2002, and purchase of SSL Shares from STC (at a consideration of HK\$1.86 per SSL Share) in February 2003.

Mr. Huang Hsing-Hua first acquired his interest in SSL in October 1999 by subscribing for SSL Shares at par. He subsequently increased his interest in SSL under rights issue (at a consideration of HK\$2 per SSL Share) in May 2001, purchase of SSL Shares from STC (at a consideration of HK\$2 per SSL Share) in June 2001, under bonus issues in June 2001 and June 2002, and purchase of SSL Shares from STC (at a consideration of HK\$1.86 per SSL Share) in February 2003.

Mr. Chang Ching-Yi, Steven acquired his interest in SSL in January 2003 by purchasing SSL Shares from employees of STC (at a consideration of HK\$1.86 per SSL Share).

Mr. Lam Pak-Lee acquired his interest in SSL in January 2003 by purchasing SSL Shares from STC and employees of STC (at a consideration of approximately HK\$1.86 per SSL Share).

2. This category comprises six senior management members of the Company, being Mr. Lin Hsin-Yih, Mr. Lai Wai-Yan, Stephen, Ms. Lui Kit Har, Keziah, Mr. Cheung Hung Fai, Mr. Chen Denkwei, Kevin and Ms. Lo Oi Yee, Mabel. The said management members acquired their interests in SSL through subscription for SSL Shares (at par) in October 1999, subscription for SSL Shares (at a consideration of HK\$1.60 per SSL Share) and/or under rights issue (at a consideration of HK\$2 per SSL Share) in May 2001, purchase of SSL Shares from STC (at a consideration of HK\$2 per SSL Share) in June 2001, under employee share scheme and/or bonus issue in June 2001 and/or June 2002, and/or purchase of SSL Shares from STC (at a consideration of HK\$1.86 per SSL Share) in February 2003.
3. This category comprises around 65 employees, not being Directors or senior management members, of the Group. The said employees acquired their interests in SSL through subscription for SSL Shares (at par) in October 1999, subscription for SSL Shares (at a consideration of HK\$1.60 per SSL Share) and/or under rights issue (at a consideration of HK\$2 per SSL Share) in May 2001, under employee share scheme and/or bonus issue in June 2001 and/or June 2002, and/or purchase of SSL Shares from STC (at a consideration of HK\$1.86 per SSL Share) in February 2003.
4. STC first acquired its interest in SSL in December 1997 by subscribing for SSL Shares at par and then in October 1999 by subscribing for additional SSL Shares at par, increasing its interest to approximately 70% of the issued share capital of SSL in October 1999. STC subsequently disposed of its interest in SSL through a series of disposals of its SSL Shares to various customers of SSL and a venture capital fund (at a consideration of HK\$2.00 per SSL Share) in March 2001, to Extreme Performance Limited (at a consideration of HK\$2.60 per SSL Share) in June 2002, to various private equity funds managed by China International Development Consulting, Inc. (at a consideration of HK\$1.86 per SSL Share) in December 2002, and to Mr. Lam Pak-Lee, a Director, and to various individual shareholders of SSL (at a consideration of HK\$1.86 per SSL Share) in January 2003.
5. This category comprises eight venture capital funds, namely, China Power Venture Capital Co., Ltd., Global Vision Venture Capital Co., Ltd., China International Investment Co., Ltd., CAM-CID Asia Pacific Investment Corp., Nien Hsing International Investment Co., China Century Venture Capital Co., Ltd., J&D Capital Corp. and A&D Capital Corp. (the "CIDC Funds"). These funds are managed by the same fund manager. The CIDC Funds first acquired their interests in SSL in December 2002 by purchasing SSL Shares from STC (at a consideration of HK\$1.86 per SSL Share), representing approximately 35% of the then issued share capital of SSL. Out of the said approximately 35% interest, the CIDC Funds agreed to sell approximately 6.5% of such interest to various employees of SSL under the Pre-IPO Share Purchase Scheme (at a consideration of HK\$1.74 for each SSL Share). Please refer to the section "Pre-IPO Schemes" of this Appendix for details on the Pre-IPO Share Purchase Scheme.
6. Extreme Performance Limited first acquired its interest in SSL in June 2002 by purchasing SSL Shares from subsidiaries of STC (at a consideration of HK\$2.60 per SSL Share). Extreme Performance Limited subsequently increased its interest in SSL under a bonus issue in June 2002.
7. Customers of the Group comprise the following:
 - (a) Wintek Corporation first acquired its interest in SSL in March 2001, through Wintek Technology (Cayman) Corporation and Wintek (B.V.I.) Corporation, by purchasing SSL Shares from subsidiaries of STC (at a consideration of HK\$4.70 per SSL Share). Wintek Corporation subsequently increased its interest in SSL under a rights issue (at a consideration of HK\$2 per SSL Share) in May 2001 and bonus issues in June 2001 and June 2002.
 - (b) Picvue Electronics, Limited first acquired its interest in SSL in March 2001 by purchasing SSL Shares from subsidiaries of STC (at a consideration of HK\$4.70 per SSL Share). Picvue Electronics, Limited subsequently increased its interest in SSL under a rights issue (at a consideration of HK\$2 per SSL Share) in May 2001 and bonus issues in June 2001 and June 2002.
8. These Shares comprise existing Shares which were transferred by Cardio Investments Limited to, and new Shares allotted and issued to, the Trustee before completion of the Global Offering, for the purposes of holding these Shares on trust for the purposes of making awards under the Share Award Plan after the Listing. These Shares will not be awarded to officers or employees of the Group prior to the Listing. Further details of the Share Award Plan are set out in the paragraph headed "Continuing Schemes — Share Award Plan" in this Appendix.

9. This category comprises Shares awarded to Directors, senior management members and other employees of the Group before completion of the Global Offering, and held by the Trustee as custodian for the Pre-IPO Loyalty Plan and trustee for the pre-IPO share reward plan (being part of the Pre-IPO Stock Reward Scheme) adopted by the Company during specified lock-up and vesting periods respectively. Further details of the Pre-IPO Loyalty Plan and the Pre-IPO Stock Reward Scheme are set out in the section headed "Pre-IPO Schemes" in this Appendix.
10. This category comprises Shares awarded to Directors, senior management members and other employees of the Group before completion of the Global Offering, and held by Cardio Investments Limited as trustee for the Pre-IPO Share Purchase Scheme and the employee share reward plan (being part of the Pre-IPO Stock Reward Scheme) adopted by Solomon Systech Limited for specified lock-up periods. Further details of the Pre-IPO Share Purchase Scheme and the Pre-IPO Stock Reward Scheme are set out in the section headed "Pre-IPO Schemes" in this Appendix.
11. This category includes around 22 shareholders. These 22 shareholders acquired their interests in SSL through subscription for SSL Shares in October 1999 at par, and/or under rights issue (at a consideration of HK\$2 per SSL Share) in May 2001, purchase of SSL Shares from STC (at a consideration of HK\$2 per SSL Share) in June 2001, under bonus issues in June 2001 and/or June 2002, and/or purchase of SSL Shares from employees of STC (at a consideration of HK\$1.86 per SSL Share) in January 2003.
12. The rights issue of SSL referred to in the notes above was undertaken at a consideration of HK\$2.00 for each SSL Share.
13. These figures represent percentage shareholdings in Solomon Systech Limited.
14. These figures represent percentage shareholdings in the Company.

(E) Resolutions passed at an extraordinary general meeting of the Company

At an extraordinary general meeting of the Company which was held on 25 February 2004, it was resolved that, inter alia:

- (a) conditional on the obligations of the underwriters under the Underwriting Agreements relating to the Global Offering becoming unconditional and not having been terminated in accordance with the terms of each of such agreements and,
 - (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, all the Shares in issue and the Shares to be issued as mentioned in this Prospectus, the Global Offering was approved, and the proposed allotment and issue of the Offer Shares (including any new Shares that may fall to be issued by the Company under the Over-allotment Option) under the Global Offering was approved, and the Directors were authorised to allot and issue such Shares;
 - (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant approval for the listing of, and permission to deal in, any Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme, the rules of the Pre-IPO Share Option Scheme were approved, subject to such modifications as may be decided by the Board (or any committee thereof established by the Board), and the Board or any such committee was authorised, at its absolute discretion, to grant options to subscribe for up to 6,300,000 Shares thereunder, to allot, issue and deal with Shares pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and to take all such steps as may be necessary or desirable to implement the Pre-IPO Share Option Scheme;
 - (iii) the Listing Committee of the Stock Exchange granting or agreeing to grant approval of the Share Option Scheme and any options which may be granted thereunder and the granting of the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any options under the Share Option Scheme, the rules of the Share Option Scheme were approved, subject to such modifications as may be decided by the Board (or any committee thereof established by the Board), and the Board or any such committee was authorised, at its absolute discretion, to grant options to subscribe for Shares thereunder, to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to take all such steps as may be necessary or desirable to implement the Share Option Scheme;

(b) the rules of the Share Award Plan were approved, and that the Directors were authorised to capitalise up to the sum of HK\$4,400,000 from the retained earnings of the Company and apply the said sum in paying up in full at par up to 44,000,000 ordinary Shares, such Shares to be allotted and issued credited as fully paid at par to a trustee appointed for the purposes of the Share Award Plan who will hold the same for the purpose of making awards thereunder, subject to such modifications as may be decided by the Board (or any committee thereof established by the Board), and the Board or any such committee was authorised, at its absolute discretion, to allot, issue and deal with the above-mentioned Shares and to take all such steps as may be necessary or desirable to implement the Share Award Plan;

(c) the rules of the Pre-IPO Loyalty Plan were approved, and that the Directors were authorised to capitalise up to the sum of HK\$7,000,000 from the retained earnings of the Company and apply the said sum in paying up in full at par up to 70,000,000 ordinary Shares, such Shares to be allotted and issued credited as fully paid at par to a custodian or a trustee appointed for the purpose of the Pre-IPO Loyalty Plan who will then hold the same for the purpose of making awards thereunder, subject to such modifications as may be decided by the Board (or any committee thereof established by the Board), and the Board or any such committee was authorised, at its absolute discretion, to allot, issue and deal with the above-mentioned Shares and to take all such steps as may be necessary or desirable to implement the Pre-IPO Loyalty Plan;

(d) the rules of the pre-IPO share reward plan were approved, and that the Directors were authorised to capitalise up to the sum of HK\$7,500,000 from the retained earnings of the Company and apply the said sum in paying up in full at par up to 75,000,000 ordinary Shares, such Shares to be allotted and issued credited as fully paid at par to a trustee appointed for the purposes of the pre-IPO share reward plan who will hold the same for the purpose of making awards thereunder, subject to such modifications as may be decided by the Board (or any committee thereof established by the Board), and the Board or any such committee was authorised, at its absolute discretion, to allot, issue and deal with the above-mentioned Shares and to take all such steps as may be necessary or desirable to implement the pre-IPO share reward plan;

(e) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of (a) a Rights Issue (as hereinafter defined); or (b) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association; or (c) any specific authority granted by the Shareholders of the Company in general meeting, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, including any Shares which may fall to be issued pursuant to the exercise of Over-allotment Option;

(f) a general unconditional mandate was given to the Directors to exercise all powers of the Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering including any Shares which may fall to be issued pursuant to the exercise of Over-allotment Option;

(g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to purchase Shares referred to in paragraph (f) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, including any Shares which may fall to be issued pursuant to exercise the Over-allotment Option); and

(h) conditional upon the Listing, the Company adopted the Memorandum of Association and the Articles.

For the purposes of paragraph (e) above, **"Rights Issue"** means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares, open for a period fixed by the Directors to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as the Directors may deem necessary or expedient (but in compliance with the relevant provisions of the Stock Exchange Listing Rules) in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).

Each of the general mandates referred to in paragraphs (e), (f) and (g) above will remain in effect until whichever is the earliest of (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (3) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting.

(2) THE REORGANISATION

On 23 December 2003, we acquired the entire issued share capital of Solomon Systech Limited from the groups of persons or entities whose details are set out below, in consideration of the allotment and issue of an aggregate of 1,885,852,710 Shares to the said groups of persons or entities, in the ratio of one share in Solomon Systech Limited to ten Shares.

The particulars of the said allotment and issue of Shares on 23 December 2003 are as follows:

- (1) 188,675,980 Shares were allotted and issued to China Power Venture Capital Co., Ltd.;
- (2) 188,675,980 Shares were allotted and issued to Global Vision Venture Capital Co., Ltd.;
- (3) 37,735,200 Shares were allotted and issued to China International Investment Co., Ltd.;
- (4) 37,735,200 Shares were allotted and issued to CAM-CID Asia Pacific Investment Corp.;
- (5) 37,735,200 Shares were allotted and issued to Nien Hsing International Investment Co.;
- (6) 18,867,590 Shares were allotted and issued to China Century Venture Capital Co., Ltd.;
- (7) 18,867,590 Shares were allotted and issued to J&D Capital Corp.;
- (8) 113,205,580 Shares were allotted and issued to A&D Capital Corp.;
- (9) 183,290,280 Shares were allotted and issued to Extreme Performance Limited;
- (10) 178,491,500 Shares were allotted and issued to Taiwan Special Opportunities Fund II;

- (11) 37,633,750 Shares were allotted and issued to Picvue Electronics, Limited;
- (12) 89,243,000 Shares were allotted and issued to Wintek Technology (Cayman) Corporation;
- (13) 83,306,570 Shares were allotted and issued to Wintek (B.V.I.) Corporation;
- (14) 24,121,620 Shares were allotted and issued to CDIB High Tech Investment Inc.;
- (15) an aggregate of 589,264,150 Shares were allotted and issued to various directors, management members and employees of the Group, and various individual investors;
- (16) 2,553,520 Shares were allotted and issued to Solomon Systech (BVI) Limited; and
- (17) 56,450,000 Shares were allotted and issued to Cardio Investments Limited.

On 23 December 2003, our Company transferred one share of HK\$1.00 in Solomon Systech Limited to Mr. Leung Kwong Wai. On 23 December 2003, Mr. Leung Kwong Wai executed a declaration of trust in favour of our Company in respect of the said one share in Solomon Systech Limited.

On 24 December 2003, Mr. Leung Kwong Wai, a director of the Company, acquired from Solomon Systech Limited one share of US\$1.00 in the issued share capital of Solomon Systech (BVI) Limited, being the entire issued share capital of Solomon Systech (BVI) Limited, at a consideration of US\$1.00.

On 24 December 2003, each of Ms. Lui Kit Har, Keziah and Mr. Lai Woon Ching subscribed for one share of US\$1.00 in the issued share capital of Solomon Systech (BVI) Limited, each at a consideration of US\$1.00. Following such acquisition and subscription, Solomon Systech (BVI) Limited is owned as to approximately 33.33% by each of Mr. Leung Kwong Wai, Ms. Lui Kit Har, Keziah and Mr. Lai Woon Ching. Solomon Systech (BVI) Limited was previously the trustee of certain employee share schemes of the Group, but has already ceased to assume such role. Accordingly, the above steps were taken to transfer Solomon Systech (BVI) Limited outside our Group.

(3) REPURCHASE OF OUR SHARES

This section includes information relating to our repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(A) Relevant legal and regulatory requirements in Hong Kong

The Stock Exchange Listing Rules permit shareholders to grant a general mandate to the directors to repurchase shares of such company that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by shareholders in general meeting.

(a) Shareholders' approval

All our proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of our shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our shareholders on 25 February 2004, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering (including the Shares which may be issued under the Over-allotment Option).

(b) Source of funds

Repurchases by our Company must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of our funds which would otherwise be available for dividend or distribution or out of an issue of new shares made for the purpose of the repurchase.

(c) Trading restrictions

The total number of Shares which we may repurchase is up to 10% of the total number of the Shares in issue immediately after the completion of the Global Offering (including the Shares which may be issued under the Over-allotment Option). We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. In addition, subject to the then prevailing requirements of the Stock Exchange Listing Rules from time to time, repurchases of Shares on the Stock Exchange in any calendar month are limited to a maximum of 25% of the trading volume of Shares on the Stock Exchange in the immediately preceding calendar month. We are also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Stock Exchange Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Stock Exchange.

(d) Status of repurchased shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(e) Suspension of repurchase

Pursuant to the Stock Exchange Listing Rules, we may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, under the requirements of the Stock Exchange Listing Rules in force as at the date hereof, during the period of one month immediately preceding either the preliminary announcement of our annual results or the publication of our interim report, (or, subject to and upon the amendments to the Stock Exchange Listing Rules announced on 30 January 2004 taking effect, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Stock Exchange Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period (whether or not required under the Stock Exchange Listing Rules); and (ii) the deadline for us to publish an announcement of our results for any year or half-year under the Stock Exchange Listing Rules, or quarterly or any other interim period (whether or not required under the Stock Exchange Listing Rules), and in each case ending on the date of the results announcement) we may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if we have breached the Stock Exchange Listing Rules.

(f) Procedural and reporting requirements

As required by the Stock Exchange Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which we may make a purchase of Shares, reporting the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(g) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “connected person” (as defined in the Stock Exchange Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

(B) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and shareholders for our Directors to have general authority from our shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and shareholders.

(C) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles of Association, the Stock Exchange Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 2,414,318,351 Shares in issue immediately after the Global Offering (and assuming that the Over-allotment Option is not exercised), could accordingly result in up to 241,431,835 Shares being repurchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required by Cayman Islands law or the Articles to be held; or (3) the revocation or variation of the purchase mandate by ordinary resolution of shareholders in a general meeting, whichever occurs first (the “Relevant Period”). If the Over-allotment Option is exercised in full, the exercise in full of the Repurchase Mandate on the basis of 2,504,854,351 Shares in issue immediately after the Global Offering could result in up to 250,485,435 Shares being repurchased by our Company during the Relevant Period.

(D) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Stock Exchange Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Stock Exchange Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Stock Exchange Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person (as defined in the Stock Exchange Listing Rules) has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(4) FURTHER INFORMATION ABOUT OUR BUSINESS**(A) Summary of our material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by us or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) three sets of instruments of transfer and bought and sold notes, all dated 20 February 2003, signed by Solomon Systech Limited and each of So Pak Wing, Lin Hsin Yih and Leung Kwong Wai, in relation to the acquisition of the entire issued share capital of Systech Technology China Limited by Solomon Systech Limited, at a consideration of HK\$1,500, HK\$1,500 and HK\$6,999, respectively;
- (b) a trust deed executed between Solomon Systech Limited and Cardio Investments Limited dated 29 July 2003, in relation to the establishment of the trust constituting the Pre-IPO Share Purchase Scheme;
- (c) a deed of variation executed by Solomon Systech Limited dated 9 December 2003 in relation to the variation of the trust deed constituting the Pre-IPO Share Purchase Scheme dated 29 July 2003;
- (d) a sale and purchase agreement executed between Solomon Systech (BVI) Limited and our Company dated 10 December 2003 in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(e) 104 sets of sale and purchase agreements, all dated 10 December 2003, signed by our Company and each of (1) China Power Venture Capital Co., Ltd.; (2) Global Vision Venture Capital Co., Ltd.; (3) China International Investment Co., Ltd.; (4) CAM-CID Asia Pacific Investment Corp.; (5) Nien Hsing International Investment Co.; (6) China Century Venture Capital Co., Ltd.; (7) J&D Capital Corp.; (8) A&D Capital Corp.; (9) Extreme Performance Limited; (10) Taiwan Special Opportunities Fund II; (11) Picvue Electronics, Limited; (12) Wintek Technology (Cayman) Corporation; (13) Wintek (B.V.I.) Corporation; (14) CDIB High Tech Investment Inc.; (15) Chang Chih Cheng; (16) Chang Ching Yi; (17) Chen Chung Yang; (18) Huang Shih Che; (19) Chen Ling; (20) Cheng Siu-ang; (21) Cheung Hing Kau; (22) Cheung Shu Wing; (23) Chou Kuang-Jen; (24) Huang Yi Chang; (25) Hui Tao Tony; (26) Kwan Wing Ki; (27) Lam Pak Lee; (28) Law Fu Yiu; (29) Lee Ki Yan; (30) Lin Hsin-Yih; (31) Liu Kwok Wai; (32) Liu Margaret; (33) Liu Pen Chieh; (34) Mui Kin Ching; (35) Ng Chi Man; (36) Tu Simon; (37) Wang Kuh Ping; (38) Ng Ka Shing; (39) Au Wai Kong Alfred; (40) Chan Ka Yee; (41) Chan Kai Leung; (42) Chan Sze Yin Yvonne; (43) Chan Wing Chun; (44) Chau Tak Chi; (45) Che Pak Lam; (46) Chen Denkwei, Kevin; (47) Cheung Hiu Kwan; (48) Cheung Hung Fai; (49) Cheung Ka Wai; (50) Chiou Yu Ping Julia; (51) Chiu Jimmy; (52) Chow Chi Kwong; (53) Chow So Ching; (54) Chu Chi Wa; (55) Fung Kin Nam; (56) Ho Pui Man; (57) Ho Tung Sang; (58) Ho Yiu Fai; (59) Huang Hsing-Hua; (60) Huang Mu Yao; (61) Ke Pie Chih; (62) Kong Ngai Ying; (63) Kwok Ka Shing Henry; (64) Lai Wai Yan Stephen; (65) Lai Woon Ching; (66) Law Ka Man; (67) Law Kai Fung; (68) Law Yin Yan Angela; (69) Lee Cheung Fai; (70) Lee Mei Yiu; (71) Lee Swee Huat Terry; (72) Lei Yiu Sang James; (73) Leung Chi Wah; (74) Leung Chui Kwan; (75) Leung Ka Chai; (76) Leung Ka Kuen; (77) Leung Kwong Wai; (78) Leung Wai Hung; (79) Li Kong Ping Andy; (80) Lo Johnkid; (81) Lo Oi Yee Mabel; (82) Lo Wai Ming; (83) Lui Kit-har, Keziah; (84) Ma Kar Chun; (85) Ng Chun Ting; (86) Ng Chung Yee; (87) Ng Kin Wai; (88) Ng Sing; (89) Ng Tsz Kit Alex; (90) Ni Chun Hao; (91) Sin Chi Wai Albert; (92) So Man Fai; (93) Tam Kin Keung; (94) Tam Wing Yu; (95) Tsang Bute Kwok; (96) Tsang Chi Yung; (97) Tse Kin Sun; (98) Tse Sau Kuen; (99) Wan Ka Ho David; (100) Wang Hongwei; (101) Wong Ka Man; (102) Wong Kwok Wing; (103) Wong Wai Yu; and (104) Yeung Wai Nga, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(f) 104 sets of instruments of transfer and bought and sold notes, all dated 17 December 2003, signed by our Company and each of (1) China Power Venture Capital Co., Ltd.; (2) Global Vision Venture Capital Co., Ltd.; (3) China International Investment Co., Ltd.; (4) CAM-CID Asia Pacific Investment Corp.; (5) Nien Hsing International Investment Co.; (6) China Century Venture Capital Co., Ltd.; (7) J&D Capital Corp.; (8) A&D Capital Corp.; (9) Extreme Performance Limited; (10) Taiwan Special Opportunities Fund II; (11) Picvue Electronics, Limited; (12) Wintek Technology (Cayman) Corporation; (13) Wintek (B.V.I.) Corporation; (14) CDIB High Tech Investment Inc.; (15) Chang Chih Cheng; (16) Chang Ching Yi; (17) Chen Chung Yang; (18) Huang Shih Che; (19) Chen Ling; (20) Cheng Siu-ang; (21) Cheung Hing Kau; (22) Cheung Shu Wing; (23) Chou Kuang-Jen; (24) Huang Yi Chang; (25) Hui Tao Tony; (26) Kwan Wing Ki; (27) Lam Pak Lee; (28) Law Fu Yiu; (29) Lee Ki Yan; (30) Lin Hsin-Yih; (31) Liu Kwok Wai; (32) Liu Margaret; (33) Liu Pen Chieh; (34) Mui Kin Ching; (35) Ng Chi Man; (36) Tu Simon; (37) Wang Kuh Ping; (38) Ng Ka Shing; (39) Au Wai Kong Alfred; (40) Chan Ka Yee; (41) Chan Kai Leung; (42) Chan Sze Yin Yvonne; (43) Chan Wing Chun; (44) Chau Tak Chi; (45) Che Pak Lam; (46) Chen Denkwei, Kevin; (47) Cheung Hiu Kwan; (48) Cheung Hung Fai; (49) Cheung Ka Wai; (50) Chiou Yu Ping Julia; (51) Chiu Jimmy; (52) Chow Chi Kwong; (53) Chow So Ching; (54) Chu Chi Wa; (55) Fung Kin Nam; (56) Ho Pui Man; (57) Ho Tung Sang; (58) Ho Yiu Fai; (59) Huang Hsing-Hua; (60) Huang Mu Yao; (61) Ke Pie Chih; (62) Kong Ngai Ying; (63) Kwok Ka Shing Henry; (64) Lai Wai Yan Stephen; (65) Lai Woon Ching; (66) Law Ka Man; (67) Law Kai Fung; (68) Law Yin Yan Angela; (69) Lee Cheung Fai; (70) Lee Mei Yiu; (71) Lee Swee Huat Terry; (72) Lei Yiu Sang James; (73) Leung Chi Wah; (74) Leung Chui Kwan; (75) Leung Ka Chai; (76) Leung Ka Kuen; (77)

Leung Kwong Wai; (78) Leung Wai Hung; (79) Li Kong Ping Andy; (80) Lo Johnkid; (81) Lo Oi Yee Mabel; (82) Lo Wai Ming; (83) Lui Kit-har, Keziah; (84) Ma Kar Chun; (85) Ng Chun Ting; (86) Ng Chung Yee; (87) Ng Kin Wai; (88) Ng Sing; (89) Ng Tsz Kit Alex; (90) Ni Chun Hao; (91) Sin Chi Wai; (92) So Man Fai; (93) Tam Kin Keung; (94) Tam Wing Yu; (95) Tsang Bute Kwok; (96) Tsang Chi Yung; (97) Tse Kin Sun; (98) Tse Sau Kuen; (99) Wan Ka Ho David; (100) Wang Hongwei; (101) Wong Ka Man; (102) Wong Kwok Wing; (103) Wong Wai Yu; and (104) Yeung Wai Nga, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(g) 69 sets of sale and purchase agreements, all dated 10 December 2003, signed by our Company and each of (1) Au Wai Kong Alfred; (2) Chan Ka Yee; (3) Chan Kai Leung; (4) Chan Sze Yin Yvonne; (5) Chan Wing Chun; (6) Chau Tak Chi; (7) Chen Denkwei, Kevin; (8) Cheung Hung Fai; (9) Cheung Ka Wai; (10) Chiou Yu Ping Julia; (11) Chiu Jimmy; (12) Chow Chi Kwong; (13) Chow So Ching; (14) Chu Chi Wa; (15) Fung Kin Nam; (16) Ho Pui Man; (17) Ho Tung Sang; (18) Ho Yiu Fai; (19) Huang Hsin-Hua; (20) Huang Mu Yao; (21) Ke Pie Chih; (22) Kong Ngai Ying; (23) Kwok Ka Shing Henry; (24) Kwok Wai Ming; (25) Lai Wai Yan Stephen; (26) Lai Woon Ching; (27) Law Ka Man; (28) Law Kai Fung; (29) Law Yin Yan Angela; (30) Lee Swee Huat Terry; (31) Lei Yiu Sang James; (32) Leung Chi Wah; (33) Leung Chui Kwan; (34) Leung Ka Chai; (35) Leung Ka Kuen; (36) Leung Kwong Wai; (37) Leung Wai Hung; (38) Li Kong Ping Andy; (39) Li Siu Mun; (40) Lo Johnkid; (41) Lo Oi Yee Mabel; (42) Lo Wai Ming; (43) Lui Kit-har, Keziah; (44) Ma Kar Chun; (45) Ng Chun Ting; (46) Ng Chung Yee; (47) Ng Kin Wai; (48) Ng Sing; (49) Ng Tsz Kit Alex; (50) Ni Chun Hao; (51) Pak Shu Keung; (52) Shum Wai Pui; (53) Sin Chi Wai Albert; (54) So Man Fai; (55) Tam Kin Keung; (56) Tam Wing Yu; (57) Tang Wing Suen; (58) Tsang Bute Kwok; (59) Tsang Chi Yung; (60) Tse Kin Sun; (61) Tse Sau Kuen; (62) Wan Ka Ho David; (63) Wan San Ying Kathy; (64) Wang Hongwei; (65) Wong Ka Man; (66) Wong Kwok Wing; (67) Wong Miu Shan; (68) Wong Wai Yu; and (69) Yu Tak Cheong, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(h) an instrument of transfer dated 17 December 2003 signed by our Company and Solomon Systech (BVI) Limited, and 69 sets of bought and sold notes, all dated 17 December 2003, signed by our Company and each of (1) Au Wai Kong Alfred; (2) Chan Ka Yee; (3) Chan Kai Leung; (4) Chan Sze Yin Yvonne; (5) Chan Wing Chun; (6) Chau Tak Chi; (7) Chen Denkwei, Kevin; (8) Cheung Hung Fai; (9) Cheung Ka Wai; (10) Chiou Yu Ping Julia; (11) Chiu Jimmy; (12) Chow Chi Kwong; (13) Chow So Ching; (14) Chu Chi Wa; (15) Fung Kin Nam; (16) Ho Pui Man; (17) Ho Tung Sang; (18) Ho Yiu Fai; (19) Huang Hsing-Hua; (20) Huang Mu Yao; (21) Ke Pie Chih; (22) Kong Ngai Ying; (23) Kwok Ka Shing Henry; (24) Kwok Wai Ming; (25) Lai Wai Yan Stephen; (26) Lai Woon Ching; (27) Law Ka Man; (28) Law Kai Fung; (29) Law Yin Yan Angela; (30) Lee Swee Huat Terry; (31) Lei Yiu Sang James; (32) Leung Chi Wah; (33) Leung Chui Kwan; (34) Leung Ka Chai; (35) Leung Ka Kuen; (36) Leung Kwong Wai; (37) Leung Wai Hung; (38) Li Kong Ping Andy; (39) Li Siu Mun; (40) Lo Johnkid; (41) Lo Oi Yee Mabel; (42) Lo Wai Ming; (43) Lui Kit-har, Keziah; (44) Ma Kar Chun; (45) Ng Chun Ting; (46) Ng Chung Yee; (47) Ng Kin Wai; (48) Ng Sing; (49) Ng Tsz Kit Alex; (50) Ni Chun Hao; (51) Pak Shu Keung; (52) Shum Wai Pui; (53) Sin Chi Wai; (54) So Man Fai; (55) Tam Kin Keung; (56) Tam Wing Yu; (57) Tang Wing Suen; (58) Tsang Bute Kwok; (59) Tsang Chi Yung; (60) Tse Kin Sun; (61) Tse Sau Kuen; (62) Wan Ka Ho David; (63) Wan San Ying Kathy; (64) Wang Hongwei; (65) Wong Ka Man; (66) Wong Kwok Wing; (67) Wong Miu Shan; (68) Wong Wai Yu; and (69) Yu Tak Cheong, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(i) 101 sets of sale and purchase agreements, all dated 10 December 2003, signed by our Company, Solomon Systech (BVI) Limited, Cardio Investments Limited and each of (1) Au Wai Kong Alfred; (2) Chan Ka Yee; (3) Chan Kai Leung; (4) Chan Pak Tsun Petrus; (5) Chan Sze Yin Yvonne; (6) Chan Wing Chun;

(7) Chang Tsai Hung; (8) Chau Tak Chi; (9) Che Pak Lam; (10) Chen Denkwei, Kevin; (11) Cheung Hiu Kwan; (12) Cheung Hung Fai; (13) Cheung Ka Wai; (14) Chiou Yu Ping Julia; (15) Chiu Jimmy; (16) Chow Chi Kwong; (17) Chow So Ching; (18) Chu Chi Wa; (19) Feng Tyne Jei; (20) Fung Kin Nam; (21) Ho Kin Pui; (22) Ho Pui Man; (23) Ho Tung Sang; (24) Ho Yiu Fai; (25) Huang Hsin-Hua; (26) Huang Mu Yao; (27) Ke Pie Chih; (28) Kong Ngai Ying; (29) Kwok Ka Shing Henry; (30) Kwok Wai Ming; (31) Lai Wai Yan Stephen; (32) Lai Woon Ching; (33) Lam Chi Keung; (34) Law Ka Man; (35) Law Kai Fung; (36) Law Yin Yan Angela; (37) Lau Yuen Pat; (38) Lee Cheung Fai; (39) Lee Mei Yiu; (40) Lee Swee Huat Terry; (41) Lei Yiu Sang James; (42) Leung Chi Wah; (43) Leung Chui Kwan; (44) Leung Ka Chai; (45) Leung Ka Kuen; (46) Leung Kwong Wai; (47) Leung Wai Hung; (48) Li Kong Ping Andy; (49) Li Siu Mun; (50) Lo Johnkid; (51) Lo Oi Yee Mabel; (52) Lo Wai Ming; (53) Lui Kit-har, Keziah; (54) Luk Man Lung; (55) Ma Kar Chun; (56) Ng Chun Ting; (57) Ng Chung Yee; (58) Ng Kin Wai; (59) Ng Sing; (60) Ng Tsz Kit Alex; (61) Ni Chun Hao; (62) Pak Shu Keung; (63) Shum Wai Pui; (64) Sin Chi Wai Albert; (65) So Man Fai; (66) Tam Kin Keung; (67) Tam Wing Yu; (68) Tang Wing Suen; (69) Tsang Bute Kwok; (70) Tsang Chi Yung; (71) Tse Kin Sun; (72) Tse Sau Kuen; (73) Wan Ka Ho David; (74) Wan San Ying Kathy; (75) Wang Chao Kuen; (76) Wang Hongwei; (77) Wong Ka Man; (78) Wong Kwok Wing; (79) Wong Miu Shan; (80) Wong Wa; (81) Wong Wai Yu; (82) Woon Yim Si Iris; (83) Yeung Wai Nga; (84) Yu Tak Cheong; (85) Yum Kin Pui; (86) Yung Yuen Yu; (87) Cheng Yunxiang; (88) Hu Zhongcheng; (89) Lu Yi; (90) Shen Yongmin; (91) Wang Gang; (92) Yuan Weiwei; (93) Chen Luoping; (94) Feng Kaiwu; (95) Huang Ge; (96) Zhou Jian; (97) Xu Lu; (98) Li Qing; (99) Yao Luoyi; (100) Li Shuang; and (101) Shen Shiheng, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(j) an instrument of transfer dated 17 December 2003 signed by our Company and Solomon Systech (BVI) Limited, and 101 sets of bought and sold notes, all dated 17 December 2003, signed by our Company and each of (1) Au Wai Kong Alfred; (2) Chan Ka Yee; (3) Chan Kai Leung; (4) Chan Pak Tsun Petrus; (5) Chan Sze Yin Yvonne; (6) Chan Wing Chun; (7) Chang Tsai Hung; (8) Chau Tak Chi; (9) Che Pak Lam; (10) Chen Denkwei, Kevin; (11) Cheung Hiu Kwan; (12) Cheung Hung Fai; (13) Cheung Ka Wai; (14) Chiou Yu Ping Julia; (15) Chiu Jimmy; (16) Chow Chi Kwong; (17) Chow So Ching; (18) Chu Chi Wa; (19) Feng Tyne Jei; (20) Fung Kin Nam; (21) Ho Kin Pui; (22) Ho Pui Man; (23) Ho Tung Sang; (24) Ho Yiu Fai; (25) Huang Hsing-Hua; (26) Huang Mu Yao; (27) Ke Pie Chih; (28) Kong Ngai Ying; (29) Kwok Ka Shing Henry; (30) Kwok Wai Ming; (31) Lai Wai Yan Stephen; (32) Lai Woon Ching; (33) Lam Chi Keung; (34) Law Ka Man; (35) Law Kai Fung; (36) Law Yin Yan Angela; (37) Lau Yuen Pat; (38) Lee Cheung Fai; (39) Lee Mei Yiu; (40) Lee Swee Huat Terry; (41) Lei Yiu Sang James; (42) Leung Chi Wah; (43) Leung Chui Kwan; (44) Leung Ka Chai; (45) Leung Ka Kuen; (46) Leung Kwong Wai; (47) Leung Wai Hung; (48) Li Kong Ping Andy; (49) Li Siu Mun; (50) Lo Johnkid; (51) Lo Oi Yee Mabel; (52) Lo Wai Ming; (53) Lui Kit-har, Keziah; (54) Luk Man Lung; (55) Ma Kar Chun; (56) Ng Chun Ting; (57) Ng Chung Yee; (58) Ng Kin Wai; (59) Ng Sing; (60) Ng Tsz Kit Alex; (61) Ni Chun Hao; (62) Pak Shu Keung; (63) Shum Wai Pui; (64) Sin Chi Wai; (65) So Man Fai; (66) Tam Kin Keung; (67) Tam Wing Yu; (68) Tang Wing Suen; (69) Tsang Bute Kwok; (70) Tsang Chi Yung; (71) Tse Kin Sun; (72) Tse Sau Kuen; (73) Wan Ka Ho David; (74) Wan San Ying Kathy; (75) Wang Chao Kuen; (76) Wang Hongwei; (77) Wong Ka Man; (78) Wong Kwok Wing; (79) Wong Miu Shan; (80) Wong Wa; (81) Wong Wai Yu; (82) Woon Yim Si Iris; (83) Yeung Wai Nga; (84) Yu Tak Cheong; (85) Yum Kin Pui; (86) Yung Yuen Yu; (87) Cheng Yunxiang; (88) Hu Zhongcheng; (89) Lu Yi; (90) Shen Yongmin; (91) Wang Gang; (92) Yuan Weiwei; (93) Chen Luoping; (94) Feng Kaiwu; (95) Huang Ge; (96) Zhou Jian; (97) Xu Lu; (98) Li Qing; (99) Yao Luoyi; (100) Li Shuang; and (101) Shen Shiheng, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

(k) an instrument of transfer and bought and sold notes, all dated 17 December 2003, signed by our Company and Solomon Systech (BVI) Limited, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed "The Reorganisation" of this Appendix;

- (l) an instrument of transfer dated 17 December 2003 signed by our Company and Solomon Systech (BVI) Limited, and 4 sets of bought and sold notes, all dated 17 December 2003, signed by our Company and each of Shen Shiheng, Yuan Weiwei, Xu Lu and Wang Gang, in relation to the acquisition of shares in Solomon Systech Limited described in the section headed “The Reorganisation” of this Appendix;
- (m) an instrument of transfer dated 23 December 2003 signed by our Company and Mr. Leung Kwong Wai, in relation to the transfer of one share in Solomon Systech Limited;
- (n) a trust deed executed between HSBC International Trustee Limited and our Company dated 19 March 2004, in relation to the establishment of the trust constituting the Share Award Plan;
- (o) a trust deed executed between HSBC International Trustee Limited and our Company dated 19 March 2004, in relation to the establishment of the trust constituting the pre-IPO share reward plan adopted by our Company (being part of the Pre-IPO Stock Reward Scheme);
- (p) a trust deed executed between Cardio Investments Limited and our Company dated 19 March 2004, in relation to the Pre-IPO Loyalty Plan; and
- (q) the Public Offering Underwriting Agreement dated 24 March 2004 entered into between our Company, the Global Coordinator and the Public Offering Underwriters, further details of which are set out in “Underwriting”.

(B) Intellectual property rights of our Company**Patents**

The Group is the registered proprietor and beneficial owner of the following patents:

Title of invention	Place of registration	Patent Number
Auto-offset LCD Vertical Scroll Mechanism	United States of America	5,229,759
	Japan	3168278
	Singapore (Note 1)	54219
	France (Note 1)	0529932
	United Kingdom (Note 1)	0529932
	Germany (Note 1)	0529932
A System for Horizontal Scrolling of Display Data	PRC (Note 2)	97113113.9
	Korea	10-0252446-00-00
	Singapore	49954
Flexible Tape Substrate for a Semiconductor Chip Package and Method of Manufacturing such a Package	PRC (Note 3)	ZL97110265.1
Low Supply Voltage Output Driver	United States of America	5,451,903
	PRC (Note 4)	95107659
	Korea	10-0160572-00-00
Driving System and Method for Electroluminescence Display.....	United States of America	US6,501,226B2
	Taiwan (Note 5)	178000

Notes:







1. The description of the patent in the documents filed with the respective patent offices in Singapore, France, the United Kingdom and Germany is "LCD Scroll Mechanism."
2. The description of the patent in the documents filed with the patent office in the PRC is "水平滾動顯示數據系統."
3. The description of the patent in the documents filed with the patent office in the PRC is "用於半導體芯片封裝的柔韌帶基片和製造這種封裝的方法."
4. The description of the patent in the documents filed with the patent office in the PRC is "低電源電壓輸出驅動器."
5. The description of the patent in the documents filed with the patent office in Taiwan is "電激發光顯示器之驅動系統及方法."

As at 19 March 2004, the Group had applied for registration of the following patents:

Title of Invention	Place of application
Low Supply Voltage Output Driver	Japan
Method and Apparatus for applying Adaptive Precharge to an Electroluminescence Display	United States of America
OLED Driver Circuit With Selectable LCD Controller Interface and Drive Strength	United States of America
Driving System and Method for applying Electronluminescence Displays	United States of America

Trademarks



As at 19 March 2004, the Group had applied for the registration of the following trademarks:

Trademark	Place of application	Application number	Class (Note)	Application date
SOLOMON SYSTECH	Hong Kong	300092439	9	11 October 2003
SOLOMON SYSTECH	Hong Kong	300092439	42	11 October 2003
	Hong Kong	300092457	9	11 October 2003
	Hong Kong	300092457	42	11 October 2003
晶门科技	Hong Kong	300092448	9	11 October 2003
晶门科技	Hong Kong	300092448	42	11 October 2003
晶門科技	Hong Kong	300092448	9	11 October 2003
晶門科技	Hong Kong	300092448	42	11 October 2003
	PRC	3751365	9	14 October 2003
	PRC	3758682	42	20 October 2003
晶门科技	PRC	3751366	9	14 October 2003
晶门科技	PRC	3758683	42	20 October 2003
	Taiwan	92065356	9	11 November 2003
	Taiwan	92065360	42	11 November 2003
晶門科技	Taiwan	92065358	9	11 November 2003
晶門科技	Taiwan	92065362	42	11 November 2003

Note:

Class	Specification
9	scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus; integrated circuits, semiconductors; semiconductors parts and apparatus; smart cards (integrated circuits cards); computer displays; PDA; mobile phones; MP3 players; cameras (photography)
42	research, development and design services of semiconductor chips and integrated circuits

Pursuant to a trademark licence agreement between Solomon Technology Corporation and Solomon Systech Limited dated 20 December 2002, Solomon Systech Limited was granted a non-exclusive licence to use the trademarks registered by Solomon Technology Corporation in the specified territory, the details of which are as follows:

Trademark	Place of registration	Registration number	Class	Specified territory
	PRC	1549913	9	PRC
	Singapore	T96/12513J	9	Singapore

Domain names

As at the 19 March 2004, the Group had registered the following domain names:

Domain Name	Registrant	Date of Registration
solomon-systech.com	Solomon Systech Limited	11 September 2003
solomonsystech.com.....	Solomon Systech Limited	24 August 2003
solomon-systech.com	Solomon Systech Limited	15 June 2003

(5) FURTHER INFORMATION ABOUT OUR DIRECTORS

(A) Particulars of Directors' service contracts

(a) Executive Directors

Each of the executive Directors has entered into an employment agreement (the "SSL Employment Agreement") with Solomon Systech Limited ("SSL") as an employee of SSL for an indefinite term and an executive director's supplemental employment agreement (the "Executive Director's Supplemental Employment Agreement") with the Company for an initial term of 3 years from the following dates:

Leung Kwong Wai, Humphrey	21 November 2003
Huang Hsing Hua	3 February 2004
Lai Woon Ching	25 February 2004
Lo Wai Ming	25 February 2004

The particulars of these agreements are in all material respects identical and are set out below:

- (1) each of the executive Directors is entitled to annual salaries, bonus payment, allowance and benefits in kind, at the discretion of the board of directors of SSL, under the SSL Employment Agreement; and
- (2) each of the executive Directors is entitled to participate in the Share Award Plan and the Share Option Scheme adopted by the Company under the Executive Director's Supplemental Employment Agreement.

(b) Non-executive Directors and independent non-executive Directors

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company. Each appointment letter is for a term of one year from the following dates:

Chang Ching-Yi, Steven	21 November 2003
Wong Yuet Leung, Frankie	3 February 2004
Lam Pak Lee	25 February 2004
Choy Kwok Hung, Patrick	25 February 2004
Sun, Patrick.....	25 February 2004
Kao Kuen, Charles.....	15 March 2004

Terms of each of the appointment letters of each of such non-executive Directors and independent non-executive Directors are in all material respects identical. Each of them is entitled to annual director's fees and options under the Pre-IPO Share Option Scheme.

(c) Remuneration of Directors

Remuneration and benefits in kind of approximately HK\$14.8 million in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended 31 December 2003.

Under the arrangements currently in force, the Directors will be entitled to receive remuneration which, for the year ending 31 December 2004, is expected to be approximately HK\$5.6 million (excluding discretionary bonus).

(B) Disclosure of interests**(a) Interests and short positions of the Directors in the share capital of the Company and its associated corporations following the Global Offering**

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules, will be as follows:

(i) *Long Positions in the shares, underlying shares and debentures of the Company*

(1) Issued ordinary shares of the Company

Name of Director	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Chang Ching-Yi, Steven	Personal	5,800,000	0.2%
Huang Hsing-Hua	Personal	7,800,000	0.3%
	Personal/Beneficiary (Note 1)	10,450,000	0.4%

Name of Director	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Lam Pak-Lee	Personal	70,000,000	2.9%
Leung Kwong Wai.....	Personal	52,000,001	2.2%
	Personal/Beneficiary (Note 2)	69,400,000	2.9%
Lo Wai Ming.....	Personal	23,380,000	1.0%
	Personal/Beneficiary (Note 3)	22,000,000	0.9%
Lai Woon Ching	Personal	36,830,000	1.5%
	Personal/Beneficiary (Note 4)	14,700,000	0.6%

Notes:

1. Out of the 10,450,000 Shares held by Mr. Huang:
 - (a) 3,200,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Huang under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
 - (b) 750,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date;
 - (c) 2,500,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Huang under the pre-IPO share reward plan of the Company (being part of the Pre-IPO Stock Reward Scheme); and
 - (d) 4,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the Pre-IPO Share Purchase Scheme for a period commencing from 9 February 2004 to a date falling twelve months after the Listing Date.
2. Out of the 69,400,000 Shares held by Mr. Leung:
 - (a) 12,000,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Leung under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
 - (b) 13,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date;
 - (c) 14,400,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Leung under the pre-IPO share reward plan of the Company (being part of the Pre-IPO Stock Reward Scheme); and
 - (d) 30,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the Pre-IPO Share Purchase Scheme for a period commencing from 9 February 2004 to a date falling twelve months after the Listing Date.
3. Out of the 22,000,000 Shares held by Mr. Lo:
 - (a) 7,200,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Lo under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
 - (b) 3,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date;
 - (c) 4,800,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lo under the pre-IPO share reward plan of the Company (being part of the Pre-IPO Stock Reward Scheme); and
 - (d) 7,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the Pre-IPO Share Purchase Scheme for a period commencing from 9 February 2004 to a date falling twelve months after the Listing Date.
4. Out of the 14,700,000 Shares held by Mr. Lai:
 - (a) 4,000,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Lai under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
 - (b) 2,300,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date;

(c) 3,400,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lai under the pre-IPO share reward plan of the Company (being part of the Pre-IPO Stock Reward Scheme); and

(d) 5,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the Pre-IPO Share Purchase Scheme for a period commencing from 9 February 2004 to a date falling twelve months after the Listing Date.

(2) Options outstanding under the Pre-IPO Share Option Scheme of the Company to subscribe for Shares in the Company

Name of Director	Date of grant	Date of expiry	Exercise price (HK\$)	Number of Share options outstanding
Leung Kwong Wai	19 March 2004	10 April 2009	Offer Price	800,000
Huang Hsing-Hua	19 March 2004	10 April 2009	Offer Price	300,000
Lo Wai Ming	19 March 2004	10 April 2009	Offer Price	300,000
Lai Woon Ching	19 March 2004	10 April 2009	Offer Price	300,000
Lam Pak Lee	19 March 2004	10 April 2009	Offer Price	800,000
Chang Ching-Yi, Steven	19 March 2004	10 April 2009	Offer Price	800,000
Wong Yuet Leung, Frankie	19 March 2004	10 April 2009	Offer Price	500,000
Choy Kwok Hung, Patrick	19 March 2004	10 April 2009	Offer Price	500,000
Sun, Patrick	19 March 2004	10 April 2009	Offer Price	500,000
Kao, Kuen Charles	19 March 2004	10 April 2009	Offer Price	500,000

(ii) *Short Positions in the shares, underlying shares and debentures of the Company*

Name of Director	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Huang Hsing-Hua	Personal/Beneficiary (Note 1)	3,950,000	0.2%
Leung Kwong Wai	Personal/Beneficiary (Note 2)	25,000,000	1.0%
Lo Wai Ming	Personal/Beneficiary (Note 3)	10,200,000	0.4%
Lai Woon Ching	Personal/Beneficiary (Note 4)	6,300,000	0.3%

Notes:

1. Out of the 3,950,000 Shares held by Mr. Huang:

(a) 3,200,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Huang under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date; and

(b) 750,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date.

2. Out of the 25,000,000 Shares held by Mr. Leung:

(a) 12,000,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Leung under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date; and

(b) 13,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date.

3. Out of the 10,200,000 Shares held by Mr. Lo:
- (a) 7,200,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Lo under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date; and
- (b) 3,000,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date.
4. Out of the 6,300,000 Shares held by Mr. Lai:
- (a) 4,000,000 Shares are subject to a lock-up and held in custody by the Custodian for the benefit of Mr. Lai under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date; and
- (b) 2,300,000 Shares are subject to a lock-up and therefore held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) for a period commencing from 23 December 2003 to a date falling twelve months after the Listing Date.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date) and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

(i) *Long positions in the shares and underlying shares of the Company*

Name of interested party	Capacity	Number of shares in which the interested party is deemed to have interests	Approximate percentage of interest in the Company
Cardio Investments Limited	Trustee (Note 1)	174,740,250	7.2%
Global Vision Venture Capital Co., Ltd.	Beneficial owner	151,980,000	6.3%
China Power Venture Capital Co., Ltd.	Beneficial owner	151,980,000	6.3%
Wintek Corporation	Interest by attribution (Note 2)	139,000,000	5.8%
Lo Hong Sui, Vincent.....	Interest by attribution (Note 3)	123,000,000	5.1%
Shui On Company Limited	Interest by attribution (Note 4)	123,000,000	5.1%
HSBC International Trustee Limited	Trustee/Interest by attribution (Note 5)	242,000,000	10.0%
Shui On Construction and Materials Limited.....	Interest by attribution (Note 6)	123,000,000	5.1%
Goldcrest Development Limited.....	Interest by attribution (Note 7)	123,000,000	5.1%
The Yangtze Ventures Limited	Interest by attribution (Note 8)	123,000,000	5.1%
Extreme Performance Limited.....	Beneficial owner	123,000,000	5.1%
Leung Kwong Wai.....	Beneficial owner	121,400,001	5.0%
Cheung Sau Shan.....	Family (Note 9)	121,400,001	5.0%

Notes:

1. Cardio Investments Limited is the trustee holding these Shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme). Cardio Investments Limited is owned as to approximately 33.33% by Mr. Leung Kwong Wai, an executive Director. Further details of the scheme and the plan are set out in the section headed "Pre-IPO Schemes" in this Appendix.
2. Under the SFO, Wintek Corporation is deemed to be interested in these Shares by virtue of the fact that Wintek Technology (Cayman) Corporation and Wintek (BVI) Corporation are its wholly-owned subsidiaries. Wintek Technology (Cayman) Corporation is interested in 72,000,000 Shares and Wintek (BVI) Corporation is interested in 67,000,000 Shares.
3. Mr. Lo is interested in the shares of Shui On Company Limited held by HSBC International Trustee Limited.
4. Shui On Company Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Construction and Materials Limited.
5. Out of the 242,000,000 Shares:
 - (a) HSBC International Trustee Limited is the trustee holding an aggregate of 119,000,000 Shares on trust for the beneficiaries under the Share Award Plan and the pre-IPO share reward plan adopted by the Company (being part of the Pre-IPO Stock Reward Scheme). Further details of these plans are set out in the sections headed "Continuing Schemes" and "Pre-IPO Schemes" in this Appendix; and
 - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Company Limited, and therefore is deemed to be interested in the 123,000,000 Shares held by Extreme Performance Limited.
6. Shui On Construction and Materials Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Goldcrest Development Limited.
7. Goldcrest Development Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of The Yangtze Ventures Limited.
8. The Yangtze Ventures Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Extreme Performance Limited.
9. Ms. Cheung Sau Shan is the spouse of Mr. Leung Kwong Wai, and is therefore deemed to be interested in the Shares held by Mr. Leung Kwong Wai under the SFO.

(ii) *Short positions in the shares and underlying shares of the Company*

Name of interested party	Capacity	Number of shares subject to short position and in which the interested party is deemed to have interests	Approximate percentage of interest in the Company
Cardio Investments Limited	Trustee (Note 1)	174,740,250	7.2%
Lo Hong Sui, Vincent.....	Interest by attribution (Note 2)	90,536,000	3.7%
Shui On Company Limited	Interest by attribution (Note 3)	90,536,000	3.7%
HSBC International Trustee Limited	Trustee/Interest by attribution (Note 4)	209,536,000	8.7%
Shui On Construction and Materials Limited	Interest by attribution (Note 5)	90,536,000	3.7%
Goldcrest Development Limited.....	Interest by attribution (Note 6)	90,536,000	3.7%
The Yangtze Ventures Limited	Interest by attribution (Note 7)	90,536,000	3.7%
Extreme Performance Limited	Beneficial owner (Note 8)	90,536,000	3.7%
Leung Kwong Wai.....	Personal/Beneficiary (Note 9)	25,000,000	1.0%
Cheung Sau Shan.....	Family (Note 10)	25,000,000	1.0%

Notes:

1. Cardio Investments Limited is the trustee holding these Shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme). Cardio Investments Limited is under an obligation to deliver these Shares to the respective beneficiaries upon fulfilment of certain conditions set out in the scheme and the plan respectively. Cardio Investments Limited is owned as to approximately 33.33% by Mr. Leung Kwong Wai, an executive Director. Further details of the scheme and the plan are set out in the section headed "Pre-IPO Schemes" in this Appendix.
2. Mr. Lo is interested in the shares of Shui On Company Limited held by HSBC International Trustee Limited.
3. Shui On Company Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Construction and Materials Limited.
4. Out of the 209,536,000 Shares:
 - (a) HSBC International Trustee Limited is the trustee holding an aggregate of 119,000,000 Shares on trust for the beneficiaries under the pre-IPO share reward plan adopted by the Company (being part of the Pre-IPO Stock Reward Scheme) and the Share Award Plan. HSBC International Trustee Limited is under an obligation to deliver these Shares to the respective beneficiaries upon fulfilment of certain conditions set out in each of these plans. Further details of these plans are set out in the sections headed "Continuing Schemes" and "Pre-IPO Schemes" in this Appendix; and
 - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Shui On Company Limited, and therefore is deemed to be interested in these 90,536,000 Shares held by Extreme Performance Limited subject to short position.
5. Shui On Construction and Materials Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Goldcrest Development Limited.
6. Goldcrest Development Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of The Yangtze Ventures Limited.
7. The Yangtze Ventures Limited is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Extreme Performance Limited.
8. This is disclosed on the assumption that a stock borrowing agreement will be entered into between Extreme Performance Limited and the Global Coordinator before completion of the Global Offering, under which Extreme Performance Limited will agree to lend up to 90,536,000 Shares to the Global Coordinator for the purposes of covering over-allocations in the Global Offering.
9. Mr. Leung is under an obligation to deliver these Shares to the Custodian and/or Cardio Investments Limited if certain conditions are not satisfied during the specified lock-up periods under the Pre-IPO Loyalty Plan and the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme), respectively. Further details on the lock-up are set out in the section headed "Disclosure of interests — Interests and short positions of the Directors in the share capital of the Company and its associated corporations following the Global Offering" in this Appendix.
10. Ms. Cheung is the spouse of Mr. Leung, and therefore is deemed to be interested in the 25,000,000 Shares held by Mr. Leung subject to short position.

(c) Connected transactions and related party transactions

Save as disclosed in this prospectus and in note 29 of the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

(C) Disclaimers

Save as disclosed in this prospectus:

- (a) the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be taken up under the Global Offering or any exercise of options under the Pre-IPO Share Option Scheme and the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company;
- (b) none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to

Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the section headed "Consents of experts" of this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to us or any of our subsidiaries;

(d) none of our Directors nor any of the parties listed in the section headed "Consents of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed "Consents of experts" of this Appendix:

(i) is interested legally or beneficially in any securities of any member of the Group; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(f) none of our Directors or their associates has any interest in any of our five largest customers;

(g) none of our Directors or their associates has any interest in any of our five largest contract manufacturers; and

(h) none of our Directors has entered into or is proposing to enter into a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(6) OTHER INFORMATION

(A) Tax and Estate Duty

Our Directors have been advised that no liability for estate duty is likely to fall on the Group.

(B) Litigation

Save as disclosed in this prospectus, no member of the Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

(C) Preliminary Listing Expenses

The preliminary listing expenses of the Global Offering are estimated to be approximately HK\$53.2 million. The Stock Exchange listing fees, the Stock Exchange trading fee, SFC transaction levy, SFC investor compensation levy, brokerage, legal and other professional fees, printing and other expenses relating to the Global Offering are currently estimated to be approximately HK\$19.0 million in aggregate. The aggregate underwriting commission in respect of the Global Offering is currently estimated to be approximately HK\$34.2 million.

Of the above expenses of HK\$53.2 million, each Selling Shareholder will be responsible, pro-rata to their Sale Shares comprising the Offer Shares, only for the incremental expenses comprising the underwriting commission as well as transactional expenses such as the SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% and stamp duty (both sell side and buy side).

(D) Promoter

The Company does not have any promoter.

(E) Particulars of the Selling Shareholders

The names, addresses and descriptions of the Selling Shareholders are as follows:

Name	Address	Description	Number of Sale Shares
Extreme Performance Limited	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	a company incorporated in British Virgin Islands	60,290,280
Taiwan Special Opportunities Fund II	3/F, No. 2, Chung-Ching S. Road, Section 1, Taipei, Taiwan	a private equity fund registered in the Cayman Islands	88,491,500
A&D Capital Corp.	Citco Building, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands	a company incorporated in British Virgin Islands	1,142,840
CAM-CID Asia Pacific Investment Corp.	Citco Building, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands	a company incorporated in British Virgin Islands	380,950
China Century Venture Capital Co., Ltd.	28th Floor, 97 Tun Hwa South Road, Section 2, Taipei 106, Taiwan	a company incorporated in Taiwan	190,470
China International Investment Co., Ltd.	28th Floor, 97 Tun Hwa South Road, Section 2, Taipei 106, Taiwan	a company incorporated in Taiwan	380,950
China Power Venture Capital Co., Ltd.	28th Floor, 97 Tun Hwa South Road, Section 2, Taipei 106, Taiwan	a company incorporated in Taiwan	1,904,720

Name	Address	Description	Number of Sale Shares
Global Vision Venture Capital Co., Ltd.	28th Floor, 97 Tun Hwa South Road, Section 2, Taipei 106, Taiwan	a company incorporated in Taiwan	1,904,720
J&D Capital Corp.	Citco Building, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands	a company incorporated in British Virgin Islands	190,470
Nien Hsing International Investment Co.	13F, No.369, Fu Hsing N. Road, Taipei, Taiwan	a company incorporated in Taiwan	380,950
Wintek Technology (Cayman) Corporation	Buckingham Square, Penthouse, Seven Mile Beach, P.O. Box 1159, George Town, Grand Cayman, Cayman Islands	a company incorporated in the Cayman Islands	17,243,000
Wintek (B.V.I.) Corporation	Citco Building, P.O. Box 662, Road Town, Tortola, British Virgin Islands	a company incorporated in British Virgin Islands	16,306,570
Picvue Electronics, Limited	No. 372, Section 4, Ching Hsing Road, Chu Dong County, Hsin Chu 310, Taiwan	a company based in Taiwan	7,633,750
Leung Kwong Wai	Flat A1-1 Summit Court 144 Tin Hau Temple Road North Point Hong Kong	Director	7,216,000
Huang Hsing-Hua	Flat E, 24th Floor Block 2 Wai Wah Center No. 11-17 Shatin Center Street Shatin New Territories Hong Kong	Director	193,750

Name	Address	Description	Number of Sale Shares
Lo Wai Ming	Flat D, 2nd Floor, Block 4 Richwood Park 33 Lo Fai Road Tai Po New Territories Hong Kong	Director	480,000
Lai Woon Ching	Flat A, 8/F, Tower II Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong	Director	5,089,000
Senior Management	N/A	N/A	19,634,450
Other Employees	N/A	N/A	5,406,000
Others	N/A	N/A	29,655,990

(F) Sponsor

The Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme. All necessary arrangements have been made enabling the securities to be admitted into CCASS.

(G) No material adverse change

Save as disclosed in this prospectus, our Directors believe that there has been no material adverse change in our financial or trading position or prospects since 31 December 2003.

(H) Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

(I) Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) neither we nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (iv) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
- (v) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company; and
- (vi) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (b) We have no outstanding convertible debt securities.
- (c) Save for the pledge of bank deposits of US\$3,183,000 as disclosed in Note 31 of the Accountants' Report in Appendix I, we have no material mortgage or charge.

(J) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Maples and Calder Asia.....	Cayman Islands Attorneys-at-Law
Chesterton Petty Limited	Independent Professional Valuer

(K) Consents of experts

Each of PricewaterhouseCoopers, Maples and Calder Asia and Chesterton Petty Limited has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

None of the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(7) CONTINUING SCHEMES

We believe in incentivising, retaining and rewarding employees, and attracting new talent, through share based incentives which will align their interests with that of our Company. To this end, we currently have six share-based remuneration schemes, of which grants of awards or options may continue after the Listing under two of them (namely, the Share Option Scheme and the Share Award Plan, together the "Continuing Schemes"); whereas awards and grants of options have been made or offered under the other four schemes (namely, the Pre-IPO Stock Reward Scheme, the Pre-IPO Share Purchase Scheme, the Pre-IPO Loyalty Plan and the Pre-IPO Share Option Scheme, together the "Pre-IPO Schemes") and no further awards or grants of options will be made or offered under them (see section headed "Pre-IPO Schemes" in this Appendix below for details).

We consider having the ability to make awards under a combination of the Share Award Plan and the Share Option Scheme provides a greater degree of flexibility and more appropriate means to cater for the

different target grantees whose relationships with our Group require different types of share-based incentives in order for them to contribute to the success of the Company. The Share Award Plan is established to create a sense of ownership amongst the officers and employees of the Group, and to reward them for their contribution towards the Group, through making award (subject to vesting) of Shares to them; whereas the options granted under the Share Option Scheme do not give immediate ownership of the underlying Shares as they require payment of subscription price based on the then prevailing market price of the Shares after Listing. Accordingly, these options may only become meaningful to the grantees after their contributions have created value for our Company.

(A) Share Option Scheme

Summary of principal terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution of the Shareholders passed on 25 February 2004 and adopted by a resolution of the Board on 19 March 2004. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Stock Exchange Listing Rules.

1. The purpose of the Share Option Scheme is to provide the Participants (defined in paragraph 2 below) who have been granted options (the "Options") under the Share Option Scheme to subscribe for Shares (the "Grantees") with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants.
2. The Directors may, at their discretion, invite any 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, in its sole discretion, have contributed or will contribute to the Group (the "Participants") to participate in the Share Option Scheme.
3. Initially the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of chapter 17 of the Stock Exchange Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the date on which trading of the Shares commences on the Stock Exchange (the "Listing Date") and any Shares which may be allotted and issued by the Company under the Over-allotment Option (such 10% limit represents 241,431,835 Shares, assuming that the Over-allotment Option is not exercised). (Options which have lapsed shall not be counted in calculating the 10% limit). However (but subject to the 30% limit referred to in this paragraph below), the Company may refresh this 10% limit with Shareholders' approval provided that each such limit (as refreshed) may not exceed the 10% of the Shares in issue as at the date of the Shareholders' approval. (Options previously granted under the Share Option Scheme and any other share option schemes adopted by the Company (and to which the provisions of chapter 17 of the Stock Exchange Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with the relevant scheme or exercised options) will not be counted for the purpose of calculating the limit to be refreshed.) The Company may seek separate approval by Shareholders in general meeting for granting Options beyond the 10% limit provided that the Options in excess of the limit are granted only to Participants specially identified by the Company before such approval is sought.

The total number of Shares which may be issued upon exercise of all Options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of chapter 17 of the Stock Exchange Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time. On the Listing Date, such 30% represents 724,295,505 Shares (assuming that the Over-allotment Option is not exercised).

4. Unless approved by Shareholders in the manner set out in this paragraph below, the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised, cancelled and outstanding Options) under the Share Option Scheme in any 12 month period must not exceed 1% of the Shares in issue. Any further grant of Options which would result in the number of Shares issued as aforesaid exceeding the said 1% limit must be subject to prior Shareholders' approval with the relevant Participant and his associates abstaining from voting.

Each grant of Options to any director, chief executive or substantial shareholder of the Company (or any of their respective associates) (as such terms are defined in rule 1.01 of the Stock Exchange Listing Rules) shall be subject to the prior approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is a proposed grantee of Options). Where any grant of Options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange),

such grant of Options shall be subject to prior approval by the Shareholders (voting by way of poll). All connected persons (as defined in the Stock Exchange Listing Rules) of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

No offer shall be made and no Option shall be granted to any Participant in circumstances prohibited by the Stock Exchange Listing Rules at a time when the Participant would or might be prohibited from dealing in the Shares by the Stock Exchange Listing Rules or by any applicable rules, regulations or law. In particular, during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the requirements of the Stock Exchange Listing Rules) for the approval of the Company's interim or annual results; and
- (b) the deadline for the Company to publish its interim or annual results announcement under the Stock Exchange Listing Rules,

and ending on the date of the results announcement, no Option may be granted.

5. (a) The period within which the Options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant Date of Grant (being the date on which the Board resolves to make an offer of Option to the relevant Grantee).
- (b) In the event a Grantee (being an employee or a director of any member of the Group) ceases to be a Participant for any reason other than (i) his or her death or (ii) on one or more of the grounds of termination of employment or engagement specified in paragraph 12(f) below, the Option shall lapse on the date of cessation of such employment or engagement and not be exercisable unless the Board otherwise determines, in which event the Option shall be exercisable to the extent and within such period as the Board may determine. The date of cessation of employment of a Grantee (being an employee and who may or may not also be a director of any member of the Group) shall be the last actual working day on which the Grantee was physically at work with the relevant member of the Group, whether salary is paid in lieu of notice or not.
- (c) In the event the Grantee dies before exercising the Option in full and none of the events for termination of employment or engagement under paragraph 12(f) below then exists with respect to such Grantee, the personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death to exercise the Option up to the entitlement of such Grantee as at the date of death.
- (d) If a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 5(e) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the Option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company at any time within such period as shall be notified by the Company.
- (e) If a general offer for Shares by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company.
- (f) In the event a notice is given by the Company to its shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed shareholders' meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such Option.
- (g) In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 5(e) above, between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and

the Grantee may at any time thereafter but before such time as shall be notified by the Company exercise the Option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such Option.

(h) Upon the occurrence of any of the events referred to in paragraphs 5(d), (e), (f) and (g) above, the Company may in its discretion and notwithstanding the terms of the relevant Option also give notice to a Grantee that his or her Option may be exercised at any time within such period as shall be notified by the Company and/or to the extent (not being less than the extent to which it could then be exercised in accordance with its terms) notified by the Company. If the Company gives such notice that any Option shall be exercised in part only, the balance of the Option shall lapse.

6. At the time of grant of the Options, the Company may specify any minimum period(s) for which an Option must be held before it can be exercised. The Share Option Scheme does not contain any such minimum period.

7. At the time of grant of the Options, the Company may specify any performance target(s) which must be achieved before the Options can be exercised in whole or in part. The Share Option Scheme does not contain any such performance targets.

8. The amount payable on acceptance of an Option is HK\$1.00.

9. The subscription price for the Shares the subject of the Options shall be no less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the Date of Grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the Date of Grant; and (iii) the nominal value of a Share on the Date of Grant. The subscription price will be established by the Board at the time the Option is offered to the Participant.

10. The Shares to be allotted and issued upon the exercise of an Option shall be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of the Grantee is registered on the register of members of the Company. Prior to the Grantee being registered on the register of members of the Company, the Grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company), in respect of the Shares to be issued upon the exercise of the Option.

11. No Options may be granted under the Share Option Scheme on or after the date of the tenth anniversary of the adoption of the Share Option Scheme.

12. An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option period;
- (b) the date or the expiry of the period for exercising the Option as referred to in paragraphs 5(b), (c), (d), (e), (f) or (g) above;
- (c) subject to the scheme of arrangement (referred to in paragraph 5(e) above) becoming effective, the expiry of the period for exercising the Option as referred to in paragraph 5(e) above;

- (d) subject to paragraph 5(f) above, the date of commencement of the winding up of the Company;
- (e) the date on which the Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person, over or in relation to any Option in breach of the Share Option Scheme;
- (f) the date on which the Grantee (being an employee or a director of any member of the Group) ceases to be a Participant by reason of the termination of his or her employment or engagement on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;
- (g) the date on which the Grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally;
- (h) where the Grantee is an employee, director, officer or contract consultant of a member of the Group (other than the Company), the date on which such member ceases to be a member of the Group; and
- (i) unless the Board otherwise determines, and other than in the circumstances referred to in paragraphs 5(b) or 5(c), the date the Grantee ceases to be a Participant (as determined by a Board resolution) for any reason.

13. In the event of an alteration in the capital structure of the Company whilst any Option remains exercisable by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of shares or reduction of the share capital of the Company, but excluding, for the avoidance of doubt, any alteration in the capital structure of the Company as a result of an issue of shares as consideration in a transaction to which the Company is a party, the auditors of or the financial adviser engaged by the Company for such purpose shall determine what adjustment is required to be made to the subscription price, and/or the number of shares to be issued on exercise of the Options, and/or (if necessary) the method of exercise of the Option (or any combination of the foregoing) provided that any such adjustments give the Participant the same proportion of the equity capital of the Company, provided that no adjustment may be made to the extent that shares would be issued at less than their nominal value.

14. Any Options granted but not exercised may be cancelled if the Grantee so agrees and new Options may be granted to the same Grantee provided such Options fall within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the Share Option Scheme.

15. The Shares issued on exercise of the Options will on issue be identical to the then existing issued shares of the Company.

16. The Company by ordinary resolution of Shareholders, or the Board, may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

17. The Options are not transferable, except for the transmission of an Option on the death of a Grantee to his personal representative(s) on terms of the Share Option Scheme.

18. Subject to the terms set out in the paragraph below, the Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in chapter 17 of the Stock Exchange Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Stock Exchange Listing Rules cannot be altered to the advantage of Participants, and no changes to the authority of the Directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with chapter 17 of the Stock Exchange Listing Rules.

Present status of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the Listing Committee granting approval of such scheme and the grant of options thereunder and granting of the listing of, and permission to deal in, the Shares to be issued as mentioned therein; and
- (b) the commencement of dealings in the Shares on the Stock Exchange.

If both of the above conditions are not satisfied on or before the date following six months after the date of adoption of the Share Option Scheme (or such later date as the Board may decide), the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. As at the date of this prospectus, no Option has been granted or agreed to be granted under the Share Option Scheme. Exercise of any of the options which may be granted under the Share Option Scheme will have a dilution effect on the shareholdings of the Shareholders at the time of such exercise of options as well as on the earnings/loss per Share for the relevant financial year of the Group.

Application has been made to the Listing Committee for the approval of the Share Option Scheme and the subsequent granting of Options under the Share Option Scheme and for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options granted under the Share Option Scheme on the Stock Exchange.

(B) Share Award Plan

The Share Award Plan was adopted by the Company on 25 February 2004 and the Board on 19 March 2004. As at the date of this prospectus, no Shares have been awarded or agreed to be awarded pursuant to the Share Award Plan.

The Company's remuneration committee, with a majority of the votes being exercisable by the independent non-executive Directors, has been delegated with the power to administer the Share Award Plan. The senior management of the Company will from time to time make proposals to the said committee on the potential beneficiaries and the number of Shares to be awarded to such beneficiaries. The remuneration committee will then decide whether to accept any such proposal. If the remuneration committee accepts any such proposal (with or without any amendments at its discretion), it will then determine as to when

the awards will be made and then instruct the Trustee accordingly. If the initial pool of 46,223,520 Shares (see paragraphs (i) and (ii) below for details) and the Shares available from the sources referred to in paragraphs (v) and (vi) below shall be depleted and there are insufficient Shares for the purpose of making Share awards under this plan, the remuneration committee will make cash payments to the Trustee which will use the same to subscribe for or purchase Shares (see paragraphs (iii) and (iv) below). Under such situation, the remuneration committee will give instructions to and inform the Trustee on the following:

- (a) the name of the beneficiary and stating whether such beneficiary is a connected person;
- (b) the number of Shares awarded; and
- (c) the amount of cash payments to be made available to the Trustee to subscribe for or purchase the specified number of Shares.

The remuneration committee will direct the Company to give such amount of cash to the Trustee for the purposes of subscribing for or purchasing Shares (as the case may be). Then the Trustee will, within 5 business days of receipt of the cash (or such other period as the Company and the Trustee may agree), subscribe for or purchase (as the case may be) such number of Shares for making awards under the plan. After the Shares have been issued to or purchased by (as the case may be) the Trustee (which shall hold the Shares during the vesting period), the Trustee will maintain two separate accounting records for the Shares held by the Trustee under the Share Award Plan, one for Shares subscribed for the benefit of persons not being connected persons of the Company, and one for the Shares purchased for the benefit of connected persons of the Company.

The class of the beneficiaries eligible for awards of Shares to be made under the Share Award Plan will include directors, senior management members and other employees of members of the Group. With respect to the awards to connected persons, it is a term of the relevant trust deed that the Trustee shall use the money to purchase Shares from the market for such purpose so that such awards will not constitute any connected transactions of the Company. For awards to persons not being connected persons, it is a term of the relevant trust deed that the Trustee shall subscribe for new Shares at par from the Company for such purpose, which will also not constitute connected transactions of the Company.

If any awards are proposed to be made to any executive or non-executive Directors (excluding the independent non-executive Directors) or a director of any member (other than the Company) of the Group under the Share Award Plan, the relevant award must be approved by the independent non-executive Directors. Furthermore, in the event that an award is proposed to be made to an executive or non-executive Directors (excluding the independent non-executive Directors) or a director of any member (other than the Company) of the Group and such proposed award, if made, would result in the Shares issued and to be issued under the Share Award Plan to any such director in the 12-month period up to and including the date of such proposed award representing in aggregate over 1% of the Shares in issue as at such date, such award must be approved by the shareholders of the Company at general meeting.

The awards which may be made under the Share Award Plan to the Directors form part of the remuneration (being discretionary bonus in the form of a Share award or discretionary cash bonus satisfied in the form of the Shares) of the Directors.

The Shares available under the Share Award Plan will come from the following sources:

- (i) On 22 March 2004, a total number of 44,000,000 Shares were allotted and issued, by way of capitalising HK\$4,400,000 of our retained earnings, to the Trustee for the purpose of making awards after

the Listing Date. Such Shares represent approximately 2.1% of the total issued share capital of our Company immediately before the Global Offering, and will represent approximately 1.8% of our Company's total issued shares immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised);

(ii) 2,223,520 Shares were transferred on 22 March 2004 from Cardio Investments Limited holding such Shares as trustee for the relevant awards under the Pre-IPO Stock Reward Scheme of Solomon Systech Limited and they represent forfeited Shares under the Pre-IPO Stock Reward Scheme;

(iii) The Company may, from time to time, make payments to the Trustee for the purpose of subscribing for new Shares from the Company at par and make award of such Shares to persons who are not connected persons (within the meaning of the Stock Exchange Listing Rules) of the Company;

(iv) The Trustee may also, from time to time, receive money from the Company for the purpose of purchasing Shares in the open market and making awards of such Shares under the Share Award Plan to persons who are connected persons of the Company. However, the Trustee will not purchase Shares in the open market for such purpose during the period commencing one month immediately preceding the earlier of the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Stock Exchange Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of our results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcement;

(v) Since Cardio Investments Limited (as trustee holding certain Shares awarded under the Pre-IPO Stock Reward Scheme) is still holding 56,450,000 Shares, which have been awarded to, and vested in, certain officers and employees of the Group, but such Shares are subject to the non-disposal lock-up and forfeiture arrangements referred to below (see "Pre-IPO Schemes — Pre-IPO Stock Reward Scheme" in this Appendix) such that if any of such officers or employees shall cease to be under the employ or engagement of any member of the Group prior to the first anniversary of the Listing Date, his Shares shall be forfeited; accordingly, in the event of any forfeiture of Shares upon the occurrence of any of the aforesaid events, such forfeited Shares will be transferred to the Trustee and will be held for the purpose of making awards under the Share Award Plan; and

(vi) The Trustee is holding 75,000,000 Shares awarded under the Pre-IPO Stock Reward Scheme, which are subject to a vesting period of up to two years (see "Pre-IPO Schemes — Pre-IPO Stock Reward Scheme" in this Appendix) such that if a recipient of an award shall leave the employ or engagement of the Group before expiry of the relevant vesting period, the Shares awarded (but remain unvested) will revert to the Trustee who will then hold such Shares for the benefit of the Share Award Plan.

Accordingly, the Shares to be awarded to officers/employees of the Group under the Share Award Plan will be at no cost to such officers/employees. In any given financial year of the Company, the maximum number of Shares to be subscribed and purchased by the Trustee for the purpose of the Share Award Plan will not exceed 2% of the total issued Shares of the Company as at the beginning of each such financial period. For the purposes of making the Share awards under the Share Award Plan referred to in paragraph (iii) above, the Board will seek from the Shareholders at any general meeting of the Company a separate mandate to allot and issue Shares. The separate mandate will:

(a) specify the maximum number of Shares which may be allotted and issued for making the Share awards under the Share Award Plan until the conclusion of the Company's next annual general meeting; and

(b) only remain in effect until (1) the conclusion of the Company's next annual general meeting; (2) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; and (3) it is varied or revoked by an ordinary resolution of the Company's shareholders in general meeting, whichever is the earliest.

At the general meeting at which the aforesaid separate mandate is sought, the Shareholders who are entitled to receive awards through subscription of new Shares pursuant to the Share Award Plan, including such Shareholders being senior management and employees of the Group (but excluding, for the avoidance of doubt, directors of members of the Group), will abstain from voting on the relevant resolution(s) granting the mandate. In addition, the Company will, in its circular to the Shareholders for convening the said general meeting, disclose the aggregate fair value of the Shares to be issued under the Share Award Plan pursuant to the aforesaid separate mandate.

In its annual reports, the Company will also set out the relevant information regarding the impact of the allotment and issue of Shares under the Share Award Plan for the following financial year, including the analysis of or reference to the estimated fair value of the Shares to be issued, and the dilution effect on the Shareholders and the likely impact on the employee costs incurred by the Company if such Shares are issued at the estimated fair value.

It is a condition under the Share Award Plan that following the making of an award, the Shares so awarded will be subject to a two year vesting period. During the said vesting period, the Shares are held by the Trustee. With respect to any award of Shares under the Share Award Plan, the recipient of such award shall not be entitled to any legal or beneficial interest in such award Shares prior to the first anniversary of the date of the award; and as from the first anniversary of the date of the award up to (but excluding) the date of the second anniversary of the award, such recipient is entitled to receive 40% of the Shares under the award (such 40% entitlement therefore becomes vested in such recipient on the said first anniversary date); and as to the balance of 60% of the award, such Shares will become vested, and the recipient will be entitled to receive such Shares, as from the second anniversary of the date of the award. However, if a recipient of an award shall leave the employ of the Group before expiry of the relevant vesting period, the Shares awarded (but remain unvested) will revert to the Trustee who will then continue to hold such Shares for future award to other employees at the instruction of the remuneration committee under the Share Award Plan.

(8) PRE-IPO SCHEMES

Awards and grants of options have been made or offered under the Pre-IPO Stock Reward Scheme, the Pre-IPO Share Purchase Scheme, the Pre-IPO Loyalty Plan and the Pre-IPO Share Option Scheme below, and no further awards or grants of options will be made under them.

(A) Pre-IPO Share Option Scheme

The Company has conditionally adopted the Pre-IPO Share Option Scheme by a resolution passed by the Shareholders at an extraordinary general meeting held on 25 February 2004 and a resolution of the Board on 19 March 2004. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors of members of the Group to the growth of the Group and/or to the listing of Shares on the Stock Exchange. The exercise of any options granted under the Pre-IPO Share Option Scheme is conditional on: (i) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and (ii) the commencement of the dealings in the Shares on the Stock Exchange.

On 19 March 2004, options to subscribe for an aggregate of 6,300,000 new Shares from the Company at the Offer Price were offered by the Company to the following persons (at a nominal consideration of HK\$1.00 payable by each grantee) in such number as set opposite against their names below under the Pre-IPO Share Option Scheme:

Name of grantee	Address	Title/Position	Number of Shares subject to the options
Leung Kwong Wai	Flat A1-1 Summit Court 144 Tin Hau Temple Road North Point Hong Kong	Managing Director	800,000
Huang Hsing Hua	Flat E, 24th Floor, Block 2 Wai Wah Center No.11-17 Shatin Center Street Shatin New Territories Hong Kong	Executive Director	300,000
Lo Wai Ming	Flat D, 2nd Floor, Block 4 Richwood Park 33 Lo Fai Road Tai Po New Territories Hong Kong	Executive Director	300,000
Lai Woon Ching	Flat A, 8/F, Tower 11 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong	Executive Director	300,000
Lam Pak Lee	9F, No.116, Hou Kang Street Shih Ling District Taipei Taiwan	Non-Executive Chairman	800,000
Chang Ching Yi, Steven	11-2 Floor No.88, Anho Road Section 2 Taipei Taiwan	Non-Executive Director	800,000
Lin Hsin Yih	No 395, 8/F Shi-Yuan Road Shindian City 231 Taiwan	Chairman and Executive Director of Solomon System Limited	500,000
Wong Yuet Leung, Frankie	Flat F, 20th Floor, Block 3 Estoril Court 55 Garden Road Hong Kong	Non-Executive Director	500,000

Name of grantee	Address	Title/Position	Number of Shares subject to the options
Choy Kwok Hung, Patrick	37 Mount Sinai Rise #06-01 Leighwoods Singapore	Independent Non- Executive Director	500,000
Sun, Patrick	Apartment 1 3/F 41A Stubbs Road Hong Kong	Independent Non- Executive Director	500,000
Kao, Kuen Charles	B2, 20/F. San Francisco Towers 35 Ventris Road Happy Valley Hong Kong	Independent Non- Executive Director	500,000
Lui Kit Har, Keziah	Flat E, 1st Floor, Tower 8 Villa Esplanada 8 Nga Ying Chau Street Tsing Yi New Territories Hong Kong	Company Secretary/ Director of Solomon Systech (Shenzhen) Limited	500,000

Exercise of any of the above outstanding options will have a dilution effect on the shareholdings of the Shareholders at the time of such exercise of options as well as on the earnings/loss per Share for the relevant financial year of the Group. Save for the above, no further options will be offered under the Pre-IPO Share Option Scheme. Assuming that all of the outstanding options offered under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date, the shareholding interests of the public would be reduced from approximately 25.0% to approximately 24.9% of the issued share capital of our Company, taking no account of any Shares which may be sold pursuant to the exercise of the Over-allotment Option, or options granted under the Share Option Scheme or any Shares which may be issued by the Company pursuant to the general mandate. These options will not be exercisable until after the date falling 12 months after the Listing Date. The Directors will not exercise any options if as a result of which the Company will not be able to comply with the public float requirements of the Stock Exchange Listing Rules.

The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share for each of the grantees is the Offer Price;
- (b) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme, the Share Option Scheme and any other share option schemes of the Company in relation to Shares must not exceed such number of Shares as shall represent 30% of the Shares in issue from time to time;
- (c) the total number of Shares subject to the Pre-IPO Share Option Scheme are 6,300,000 Shares equivalent to approximately 0.3% (prior to the Global Offering) and approximately 0.3% (immediately following completion of the Global Offering (assuming that the Over-allotment Option and any of the options offered under the Pre-IPO Share Option Scheme have not been exercised)) of the issued share capital of the Company;

- (d) subject to paragraph (b) above, there is no provision limiting the maximum number of options that may be granted to any individual grantee under the Pre-IPO Share Option Scheme;
- (e) the grantees eligible for the options comprise only the directors of members of the Group;
- (f) each of the grantees of options will only be entitled to exercise his or her options after the date falling 12 months after the Listing Date and during any period as notified by Board (or a committee thereof) and expiring not more than ten years after the date of grant;
- (g) the provisions on the granting of options to connected persons (as defined in the Listing Rules) were not included;
- (h) the price sensitive development provisions relating to grant of options were not included;
- (i) although this scheme provides that options can be offered and granted up to 9:00 a.m. on the business day before the Listing Date, the Directors have confirmed that no further options (other than those referred to above) will be offered under this scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

(B) Pre-IPO Loyalty Plan

The Pre-IPO Loyalty Plan was adopted by the Shareholders on 25 February 2004 and the Board on 19 March 2004. Four Directors, five senior management members and 23 other employees of the Group were selected to participate in the Pre-IPO Loyalty Plan on 19 March 2004.

The details of the Share awards made to the Directors under the Pre-IPO Loyalty Plan are set out below:

Name	Title/Position	Number of Shares awarded
Leung Kwong Wai	Managing Director	12,000,000
Huang Hsing-Hua.....	Executive Director	3,200,000
Lo Wai Ming	Executive Director	7,200,000
Lai Woon Ching.....	Executive Director	4,000,000

In addition to the above, a total of five senior management members of the Group have been awarded an aggregate number of 12,200,000 Shares, and a total of 23 other employees of the Group have been awarded an aggregate number of 31,400,000 Shares, under the Pre-IPO Loyalty Plan.

The Pre-IPO Loyalty Plan is a one-off plan and is close-ended, and therefore apart from the aforementioned beneficiaries who have been awarded the above-mentioned number of Shares, no further awards will be made under the Pre-IPO Loyalty Plan. All the awards made under the Pre-IPO Loyalty Plan will vest on 1 April 2004 (but subject to the lock-up arrangements referred to below).

It is a condition of the awards made under the Pre-IPO Loyalty Plan that following the vesting of the award Shares, such Shares will be subject to lock-up for a period from the vesting date up to four years after the Listing Date. During the said lock-up period, the Shares are held by the Trustee (acting as custodian only in relation to such Shares and under a custodian agreement entered into between the Company, the Trustee and the recipients of the awards). 100% of the award Shares will be locked up from the time of the vesting up to (but excluding) the date of the first anniversary of the Listing Date; 25% of such Shares will be released from the lock-up after the first anniversary of the Listing Date; and with respect to the

remaining 75% of such Shares, they will continue to be subject to the lock-up and will only be released from the lock-up in three equal tranches on each of the subsequent anniversary of the Listing Date. However, if any recipient of an award of Shares shall cease to be under the employ, or cease to be an officer, of any member of the Group before expiry of the relevant lock-up period, his award Shares still subject to lock-up will be transferred and sold to the Trustee (for a nominal consideration), and the Trustee will allocate such Shares on a pro rata basis (subject to rounding) to the other recipients of awards (who remain under the employ or otherwise being officers of any member of the Group) under the Pre-IPO Loyalty Plan.

The above-mentioned Shares awarded under the Pre-IPO Loyalty Plan (aggregating 70,000,000 Shares, representing approximately 3.4% of the entire issued share capital of our Company immediately before the Global Offering and approximately 2.9% immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised)) are currently held by the Trustee. Such Shares were allotted and issued by the Company capitalising HK\$7,000,000 of its retained earnings. Accordingly, such Shares are given at no cost to the recipients of awards under the Pre-IPO Loyalty Plan.

(C) Pre-IPO Stock Reward Scheme

The Pre-IPO Stock Reward Scheme comprises the employee share reward plan of Solomon Systech Limited and the pre-IPO share reward plan adopted by the Company in place thereof after the Reorganisation.

(a) *Employee share reward plan of Solomon Systech Limited*

Solomon Systech Limited adopted the employee share reward plan on 9 August 2001, under which a total of 5,645,000 shares of HK\$1.00 each in the capital of Solomon Systech Limited became vested in certain officers and employees of the Group on 23 December 2003, which shares were subsequently transferred to the Company pursuant to the Reorganisation and a total of 56,450,000 Shares were issued to Cardio Investments Limited, as trustee, holding the same for the aforesaid officers and employees until the date falling twelve months after the Listing Date.

The details of the Share awards made to the Directors under the employee share reward plan adopted by Solomon Systech Limited are set out below:

Name	Title/Position	Number of Shares awarded
Leung Kwong Wai	Managing Director	13,000,000
Huang Hsing-Hua.....	Executive Director	750,000
Lo Wai Ming	Executive Director	3,000,000
Lai Woon Ching	Executive Director	2,300,000

In addition to the above, a total of five senior management members of the Group have been awarded an aggregate number of 7,600,000 Shares, and a total of 92 other employees of the Group have been awarded an aggregate number of 29,800,000 Shares, under the employee share reward plan adopted by Solomon Systech Limited.

Each of the said officers and employees has:

- (i) undertaken to Cardio Investments Limited not to dispose of or encumber his/her award Shares during the period from the date on which the award Shares were issued to Cardio Investments Limited to the date falling twelve months after the Listing Date; and

(ii) granted a call option to Cardio Investments Limited in respect of their respective award Shares exercisable by Cardio Investments Limited in whole for the total consideration of HK\$1.00 for all of their respective Shares in the event that his engagement or employment with the Group ceases within the said period, and such officer or employee will be treated as having forfeited his award Shares, and such forfeited Shares will be transferred to the Trustee who will hold such Shares for the benefit of the Share Award Plan.

(b) *Pre-IPO share reward plan of the Company*

In addition, on 19 March 2004, 75,000,000 Shares were offered (subject to the vesting period referred to below) by the Company to certain directors, senior management members and other employees of the Group under the pre-IPO share reward plan adopted by the Shareholders on 25 February 2004 and the Board on 19 March 2004.

The details of the Share awards offered to the Directors under the pre-IPO share reward plan adopted by the Company are set out below:

Name	Title/Position	Number of Shares offered
Leung Kwong Wai	Managing Director	14,400,000
Huang Hsing-Hua.....	Executive Director	2,500,000
Lo Wai Ming	Executive Director	4,800,000
Lai Woon Ching	Executive Director	3,400,000

In addition to the above, a total of five senior management members of the Group have been offered an aggregate number of 9,600,000 Shares, and a total of 134 other employees of the Group have been offered an aggregate number of 40,300,000 Shares, under the pre-IPO share reward plan adopted by the Company.

Such Shares were issued by the Company capitalising HK\$7,500,000 of its retained earnings and they have been issued to and are held by the Trustee for such officers and employees. It is a condition of such awards that the Shares will be subject to a two year vesting period. During the said vesting period, the Shares are held by the Trustee, and the recipients of such awards shall not be entitled to any legal or beneficial interest in such award Shares prior to the first anniversary of the date of the award; and as from the first anniversary of the date of the award up to (but excluding) the date of the second anniversary of the award, each such recipient is entitled to receive 40% of the Shares under the award (such 40% entitlement therefore becomes vested in such recipient on the said first anniversary date); and as to the balance of the award, such Shares will become vested, and the recipient will be entitled to receive such Shares, as from the second anniversary of the date of the award. However, if a recipient of an award shall leave the employ or engagement of the Group before expiry of the relevant vesting period, the Shares awarded (but remain unvested) will revert to the Trustee who will then continue to hold such Shares for the benefit of the Share Award Plan.

The above-mentioned Shares, in aggregate, awarded under the Pre-IPO Stock Reward Scheme represent approximately 6.3% of the entire issued share capital of our Company immediately before the Global Offering and approximately 5.4% immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Apart from the above, no further Shares will be awarded under the Pre-IPO Stock Reward Scheme.

(D) Pre-IPO Share Purchase Scheme

Solomon Systech Limited adopted the Pre-IPO Share Purchase Scheme on 29 July 2003, under which a total of 118,290,250 Shares have been awarded to employees of the Group on 9 February 2004.

The details of the Share awards made to the Directors under the Pre-IPO Share Purchase Scheme are set out below:

Name	Title/Position	Number of Shares awarded
Leung Kwong Wai	Managing Director	30,000,000
Huang Hsing-Hua.....	Executive Director	4,000,000
Lo Wai Ming	Executive Director	7,000,000
Lai Woon Ching	Executive Director	5,000,000

In addition to the above, a total of five senior management members of the Group have been awarded an aggregate number of 16,500,000 Shares, and a total of 105 other employees of the Group have been awarded an aggregate number of 55,790,250 Shares, under the Pre-IPO Share Purchase Scheme.

This scheme was established through options granted by eight existing shareholders of the Company (namely, China Power Venture Capital Co., Ltd, Global Vision Venture Capital Co., Ltd., China International Investment Co., Ltd, CAM-CID Asia Pacific Investment Corp., Nien Hsing International Investment Co., China Century Venture Capital Co., Ltd, J&D Capital Corp. and A&D Capital Corp.) in relation to their existing shareholdings to Mr. Leung Kwong Wai. Under the terms of this scheme, the beneficiaries would have to pay HK\$0.174 for each Share that they were awarded, unless certain performance targets set for the financial year ending 31 December 2003 were met, in which case the purchase consideration would be paid for by the Company and recorded as an expense of the Company. Such performance targets have been met, the purchase consideration has been funded by the Company. Approximately HK\$8,004,000 was funded by the Group in respect of awards made to certain Directors under the Pre-IPO Share Purchase Scheme.

The awarded Shares have vested in the relevant beneficiaries, but they are held by Cardio Investments Limited as trustee for the beneficiaries for a lock-up period commencing from the date of vesting to a date falling twelve months after the Listing Date. On expiration of the said lock-up period, the relevant Shares will be transferred to the relevant beneficiaries.

The above-mentioned 118,290,250 Shares awarded under the Pre-IPO Share Purchase Scheme represent approximately 5.7% of the entire issued share capital of our Company immediately before the Global Offering and approximately 4.9% immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Apart from the above, no further Shares will be awarded under this scheme.

The Trustee, which hold Shares as the custodian for the Pre-IPO Loyalty Plan and the trustee for both the Share Award Plan and the pre-IPO share reward plan adopted by the Company (being part of the Pre-IPO Stock Reward Scheme), is subject to the relevant laws governing trustees; whereas Cardio Investments Limited, which hold Shares as the trustee for both the employee share reward plan of Solomon Systech Limited (being part of the Pre-IPO Stock Reward Scheme) and the Pre-IPO Share Purchase Scheme, is not subject to the relevant laws governing trustees.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the pink, yellow and white Application Forms, (ii) the written consents referred to in the section headed “(6) Other Information — (K) Consents of experts” in Appendix IV to this prospectus, (iii) copies of each of the material contracts referred to in paragraph headed “(4) Further Information about our Business — (A) Summary of our Material Contracts” in Appendix IV to this prospectus, (iv) the statement of adjustments relating to the Accountants’ Report set out in Appendix I to this prospectus, and (v) a statement as to the names, descriptions and addresses of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler at 20/F, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants’ report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus together with the statement of adjustments;
- (c) such audited financial statements as have been prepared for Solomon Systech Limited and its subsidiaries for the three financial years ended 31 December 2003;
- (d) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by Chesterton Petty Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Maples and Calder Asia, summarising certain aspects of the Companies Law referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “(4) Further information about our Business — (A) Summary of our Material Contracts” in Appendix IV to this prospectus;
- (h) the service contracts and appointment letters referred to in the section headed “(5) Further information about our Directors — Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in the section headed “(6) Other Information — (K) Consents of experts” in Appendix IV to this prospectus;
- (j) the rules of the Pre-IPO Share Option Scheme; and
- (k) the rules of the Share Option Scheme.