



**SOLOMON
SYSTECH**
晶門科技

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

2004 INTERIM ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover grew by 138% from gaining market share and successful marketing and sales of more colour display ICs.
- Gross profit grew by 104% while gross margin dropped by 6% due to the Group's strategic decision to maintain a competitive pricing policy to expand market share.
- Net profit grew by 140%, outperforming turnover growth, was attributable to gain in operational efficiency.
- Positive business prospects, strong market position as well as sound earnings and cash position enabled a healthy dividend payout.

INTERIM RESULTS

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period of last year.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2004**

		Unaudited Six months ended 30 June	
	<i>Note</i>	2004	2003
		<i>US\$'000</i>	<i>US\$'000</i>
Turnover	2	110,125	46,355
Cost of sales		<u>(70,429)</u>	<u>(26,879)</u>
Gross profit		39,696	19,476
Other revenues	2	120	28
Research and development costs		(4,615)	(3,029)
Selling and distribution expenses		(688)	(427)
Administrative expenses		(6,783)	(3,764)
Other operating income/(expenses)		<u>211</u>	<u>(670)</u>
Operating profit	4	27,941	11,614
Finance costs		(1)	(1)
Share of result of an associated company		<u>(22)</u>	<u>—</u>
Profit before taxation		27,918	11,613
Taxation	5	<u>(4,986)</u>	<u>(2,041)</u>
Profit attributable to shareholders		<u>22,932</u>	<u>9,572</u>
Dividends	6	<u>24,432</u>	<u>—</u>
Earnings per share (US cents)	7		
Basic		<u>1.01</u>	<u>0.46</u>
Diluted		<u>1.01</u>	<u>0.46</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2004**

	Unaudited 30 June 2004 US\$'000	Audited 31 December 2003 US\$'000
Non-current assets		
Fixed assets	9,908	5,490
Patents and intellectual property	225	675
Goodwill	133	291
Investment in an associated company	1,242	—
Fixed bank deposit	1,000	—
	<u>12,508</u>	<u>6,456</u>
Current assets		
Inventories	20,321	13,083
Accounts and bills receivables	29,381	20,860
Prepayments, deposit and other receivables	1,086	848
Pledged bank deposits	3,183	3,183
Bank balances and cash	124,402	37,173
	<u>178,373</u>	<u>75,147</u>
Current liabilities		
Accounts payable	25,759	18,476
Bills payable	1,459	1,505
Accrued charges and other payables	6,276	7,620
Tax payable	8,193	3,494
Obligations under finance leases	6	4
	<u>41,693</u>	<u>31,099</u>
Net current assets	<u>136,680</u>	<u>44,048</u>
Total assets less current liabilities	<u>149,188</u>	<u>50,504</u>
Non-current liabilities		
Obligations under finance leases	12	1
Deferred taxation	431	587
	<u>443</u>	<u>588</u>
	<u>148,745</u>	<u>49,916</u>
Financed by:		
Share capital	32,279	24,302
Reserves		
Proposed interim dividend	8,393	—
Other	108,073	25,614
Shareholders' funds	<u>148,745</u>	<u>49,916</u>

NOTES TO THE CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

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. Under a group reorganisation, which was completed on 23 December 2003 (the “Reorganisation”), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 April 2004 (the “Listing”). Further details of the Reorganisation are set out in the prospectus of the Company dated 25 March 2004 (the “Prospectus”).

The Reorganisation has been reflected in these interim accounts by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the interim accounts for the six months ended 30 June 2004 has been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group for the six months ended 30 June 2003 as if the current structure had been in existence throughout the period presented.

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the preparation of the Accountants’ Report as set out in Appendix I of the Prospectus.

The accounting policy of investment in associated companies which was not previously disclosed is set out below.

Associated company

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The condensed consolidated profit and loss account includes the Group’s share of the results of the associated company for the period, and the condensed consolidated balance sheet includes the Group’s share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group’s interest in the associated company; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 Revenues and turnover

The Group is principally engaged in the research, design, development and distribution of integrated circuits (“ICs”). Revenues recognised during the period are as follows:

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Turnover		
Sale of goods	<u>110,125</u>	<u>46,355</u>
Other revenues		
Bank interest income	78	27
Other income	<u>42</u>	<u>1</u>
	<u>120</u>	<u>28</u>
Total revenues	<u>110,245</u>	<u>46,383</u>

3 Segmental analysis

Segment information is presented in respect of 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

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Hong Kong	35,422	21,877
The People’s Republic of China (the “PRC”)	1,865	—
Taiwan	43,434	12,112
Japan	15,391	10,189
Korea	4,670	1,309
United States of America	311	510
Others	<u>9,032</u>	<u>358</u>
	<u>110,125</u>	<u>46,355</u>

(ii) Capital expenditures by location of assets

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Hong Kong	1,794	1,616
The PRC	1,269	37
Taiwan	2,887	—
Others	147	—
	<u>6,097</u>	<u>1,653</u>

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

4 **Operating profit**

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Operating profit is stated after crediting and charging the following:		
<i>Crediting</i>		
Gain on disposal of other investment	180	—
Exchange gain	<u>103</u>	<u>26</u>
<i>Charging</i>		
Depreciation of owned fixed assets	1,678	311
Depreciation of leased fixed assets	2	1
Amortisation of patents and intellectual property included in research and development costs	450	450
Amortisation of goodwill included in administrative expenses	50	50
Staff costs	<u>5,722</u>	<u>4,430</u>

5 **Taxation**

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

	Unaudited Six months ended 30 June	
	2004 US\$'000	2003 US\$'000
Current taxation:		
Hong Kong profits tax	5,142	2,008
Deferred taxation	<u>(156)</u>	<u>33</u>
	<u>4,986</u>	<u>2,041</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. 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 period.

6 Dividends

	Unaudited Six months ended 30 June	
	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
(a) Dividend attributable to the previous year, approved and paid during the period: 2002 final, paid, of HK\$0.26 (approximately 3.4 US cents) per ordinary share of Solomon Systech Limited (“SSL”), a wholly owned subsidiary of the Company, to its then shareholder (Note (i))	<u>—</u>	<u>6,122</u>
(b) Dividend attributable to the year: 2004 first interim, paid, of HK\$0.066 (approximately 0.85 US cents) per ordinary share (Note (ii))	16,039	—
2004 second interim, declared, of HK\$0.026 (approximately 0.34 US cents) per ordinary share (Note (iii))	8,393	—
	<u>24,432</u>	<u>—</u>

Notes:

- (i) The number of SSL’s shares in issue at the time of the payment of 2002 final dividend was 183,290,273 shares.
- (ii) On 3 February 2004, the Directors declared the first interim dividend of HK\$0.066 per ordinary share for the year ending 31 December 2004. The first interim dividend was paid on 1 March 2004.
- (iii) On 27 July 2004, the Directors declared the second interim dividend of HK\$0.026 per ordinary share which will be payable to shareholders whose names appear on the register of members on 27 August 2004. The second interim dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

7 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group’s profit attributable to shareholders of US\$ 22,932,000 (2003: US\$9,572,000).

The basic earnings per share is based on the weighted average number of 2,265,853,248 (2003: 2,074,852,711) ordinary shares in issue during the period. The diluted earnings per share is based on 2,266,119,827 (2003: 2,074,852,711) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 266,579 (2003: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

INTERIM DIVIDEND

The Directors have resolved to declare a second interim dividend of 2.6 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 27 August 2004. The interim dividend will be paid on 7 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 August 2004 to 27 August 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 24 August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2004, the Group's turnover increased by 138% to US\$110.1 million, as compared with the same period in 2003. The growth was mainly due to the Group's success in gaining market share and marketing and sales of more colour display ICs. During the period, gross profit increased by 104% to US\$39.7 million. The Group's strategic decision to maintain a competitive pricing policy to expand market share, despite tighter production capacity worldwide and higher manufacturing costs, resulted in a decline in gross profit margin.

As a result of higher operational efficiency, the Group's net profit growth was higher than the turnover growth. Net profit increased by 140% to US\$22.9 million. As regards net profit margin, it was maintained at over 20%. In summary, the overall financial performance of the Group in the first six months of 2004 has exceeded that in the whole year of fiscal 2003.

Given its leadership position in the global display ICs market as well as its strong financial position, the Board resolved to declare a second dividend of 2.6 HK cents per share to shareholders whose names appear on the Register of Members of the Company on 27 August 2004. The Board may declare further dividend in the second half of the year after taking into account the Group's operations, earnings, financial condition, cash requirements and availability and other factors as they may deem relevant at such time.

Financial Position and Liquidity

Net cash flow from operations during the period amounted to US\$19.5 million. The Group ended the period with US\$125.4 million of net cash (i.e. cash and cash equivalents less bank loans), of which approximately US\$91 million represented net proceeds from the Listing in April 2004. The Group intends to use the cash for its current and future product development, investment in securing capacity and general corporate purposes. As at 30 June 2004, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts.

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

Capital Expenditure

Capital expenditure for the period was approximately US\$6.1 million (2003: US\$1.6 million), the majority of which was spent on the purchase of critical packaging and testing equipment (in cooperative arrangement with contract manufacturers) for securing production capacity.

Capital Commitment and Contingent Liabilities

The Group had no material capital commitments or contingent liabilities as at 30 June 2004.

BUSINESS REVIEW

Book to Bill Ratio and Backlog

In the review period, the monthly book to bill ratio ranged from 1.1 to 1.8. The first half yearly ratio of 2004 was 1.4, indicating a strong growth of the Group's business in the second half of the year. As at 30 June 2004, the Group had abundant backlog orders on hand for shipment in the next few months.

Product Shipment

There were a number of factors that allowed the Group to leverage its competitive position and give rise to significant growth in shipment, namely introducing the right products at the right time, matching the strong demand for cellular phones and portable equipment as well as the industry's transition from monochrome to colour displays. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2004	1H 2003	Growth (%)	2003
Monochrome STN	28.0	20.2	39	44.6
Colour STN	28.8	7.0	311	20.2
OLED	7.2	1.5	380	6.2
Colour OLED	0.9	0.0	*	0.0
TFT	0.1	0.0	*	0.0
Miscellaneous	0.1	0.1	—	0.1
Total	<u>65.1</u>	<u>28.8</u>	<u>126</u>	<u>71.1</u>

Note: Miscellaneous includes graphic controller, PDA and others

Total shipment of display ICs in the review period was 65.1 million units, representing a growth of 126% against the same period last year. According to Gartner's forecast in June 2004, global shipments of cellular phones for 2004 are expected to exceed 600 million units. The Group believes about one out of six new cellular phones is using its proprietary display ICs.

Among its products, monochrome STN display ICs shipments grew by 39% to 28 million units during the review period. At the same time, colour STN (CSTN) display ICs recorded a strong momentum of growth. The shipment for the period reached 28.8 million units, an increase of 311% as compared to the same period in 2003. OLED display ICs also showed phenomenal growth, increasing by 380% year-on-year to 7.2 million units. The Group also began the mass production of colour OLED and mobile TFT display ICs, which are expected to contribute significantly to the Group's financial performance in the future.

Research and Development

In the past six months, the research and development costs accounted for roughly 4.5% of the Group's revenue. In order to reinforce its competitive position in the market, the Group will continue its focus on research and development. As at 30 June 2004, the Group had over 100 professionals in the design and engineering function, representing approximately 56% of the Group's total number of employees. In addition to driving the Group's technology advancement to 0.18 μ m for high integration graphic and multimedia processor, the research and development team was also designing a number of mixed mode IC products for mobile display, large display and new display. During the review period, mass production of a number of new CSTN, mobile TFT and colour OLED display ICs was commenced.

In April 2004, a Singapore Technology Center (SnpTC) was set up and as at 30 June 2004, 10 IC design and engineering professionals were recruited for the Singapore center. The professional team has an average of 10 years' relevant experience gained from multinational and domestic high-tech companies.

Significant Events

The most important event of the Group in the past 6 months was the Listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong. The Listing not only strengthened the Group's financial position, but also enhanced the Group's public profile and relationships with business partners. As a listed company, the Company will continue to increase its transparency to the investment community and strive to maintain a high standard of corporate governance.

Business Relationships

The Group's well-established relationships with display module makers and major end product brand names continued to form a strong foundation for its leading market position and future growth. Currently, it serves more than 50 global display module makers such as Alps, Arima Display, AUO, BYD, Giantplus, Hosiden, Hyundai LCD, Kopin, Nanya, NessDisplay, Optrex, Osram, Philips, Picvue, RiTdisplay, Samsung SDI, Sanyo, Sharp, Truly, Varitronix, Wintek etc.

The Group believes its display IC products are also used by global end product brand names, including Amosonic, BenQ, Bird, DBTEL, Eastom, LG, Liteon, Motorola, Panasonic, Pantech, Quanta, Samsung, Siemens, Sony Ericsson, TCL and UTStarcom.

Capacity Expansion

As compared to the corresponding period last year, the Group doubled its production capacity, through employing qualified additional subcontractors and production lines. To ensure sufficient wafer supply to meet increasing demand, the Group will continue to work with existing and new foundries on capacity increase and explore alternatives to secure wafer supply.

Human Resources

As at 30 June 2004, the total number of Group employees was close to 200, of which approximately 70% were based in its Hong Kong headquarters and the rest were located outside Hong Kong. To extend regional market presence and foster closer customer relationship, the Group set up a new office in Japan and a technology center in Singapore.

Remuneration of the Group's employees includes basic salaries and bonuses. The Group believes in incentivising, retaining and rewarding employees, and attracting new talent, through share based incentives which will align their interests with that of the Group. As described in greater detail in the Prospectus, there are four Pre-IPO schemes with grants or offers made prior to the Listing and no further awards or grants of options will be made or offered under them. There are two Post-IPO continuing schemes in place, namely Share Option Scheme and Share Award Plan. During the period from date of the Listing till 30 June 2004, there was no grant of options or award under the two schemes.

The Group also provides formal and informal training and development opportunities to all employees for the purpose of enhancing their professional capabilities and personal development.

As regards the salaries and compensation package of the Directors, they are governed by the Remuneration Committee.

BUSINESS PROSPECTS

The Group is optimistic about the outlook for advanced display IC solutions and its leadership in the market. With strong book to bill ratio, abundant backlog orders and successful marketing and sales of new products, the Group forecasts solid growth in the second half of the year.

Mobile Display

The Group sees strong demand for mobile display ICs as various mobile applications demand more displays and various display technologies differentiate the performance of end products. Furthermore, the gradual migration from monochrome to colour display and the integration of more functions and advanced features into display ICs will bring high value growth for the display IC market.

In light of these opportunities, the Group had responded by devoting more resources to speeding up the time-to-market of its colour display ICs. In the first half, the Group began mass production of colour OLED and TFT display ICs. At the same time, the Group is enlarging its product portfolios with more high value and multifunction display ICs.

The Group also witnessed an emerging potential for its graphic controllers, which have been designed for non-cellular phone type applications. As the Group advances in system integration, the revenue contribution from such controllers will increase.

Large Display

The Group believes that the demand for large flat panel display will increase, given the advent of digital broadcasting and the increasing popularity of flat panel TVs and LCD monitors. It has been working closely with several world-class large panel module manufacturers on new IC products. The products are under internal qualification and the first shipment is expected in the next 12 months.

New Display

New display such as micro display and e-paper are expected to enhance and create new applications, for example, electronic viewfinder and electronic signboard. The Group is cooperating with leading technology companies and realizing commercial applications. Such innovative applications using the latest display technology will soon be announced.

In summary, the Group will continue to focus on new product development, invest in securing capacity and build the necessary infrastructure to cope with the business growth. Backed by its experienced management team, the Group is confident of its ability to maintain its leadership position in display solutions and to create value for its shareholders.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period from 8 April 2004 (the date of Listing) to 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the period from 8 April 2004 to 30 June 2004.

AUDIT COMMITTEE

The Audit Committee is composed of a majority of Independent Non-Executive Directors. The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial accounts for the six months ended 30 June 2004.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit to the Stock Exchange on 27 July 2004 the financial information required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules.

By Order of the Board
Solomon Systech (International) Limited
LEUNG Kwong Wai
Managing Director

Hong Kong, 27 July 2004

As at the date of this announcement, the executive Directors are Mr Leung Kwong Wai, Mr Huang Hsing-Hua, Mr Lai Woon Ching and Mr Lo Wai Ming; the non-executive Directors are Mr Lam Pak-Lee, Mr Chang Ching-Yi, Steven and Mr Wong Yuet Leung, Frankie; and the independent non-executive Directors are Mr Choy Kwok Hung, Patrick, Mr Sun, Patrick and Mr Kao Kuen, Charles.

Please also refer to the published version of this announcement in The Standard.