



**SOLOMON
SYSTECH**
晶門科技

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

Announcement of 2004 final results

FINANCIAL HIGHLIGHTS

- Turnover grew by 182% attributable to sales of more colour display ICs
- Net profit grew by 161% to US\$59.2 million
- Earnings per share was 2.48 US cents, or 19.3 HK cents, an increase of 127%
- The Board resolved to declare a final dividend per share of 1.54 US cents, or 12 HK cents
- Total dividends per share totaled 1.88 US cents, or 14.6 HK cents
- Return on equity reached 52% for the year

FINAL RESULTS

The directors (the “Directors”) of Solomon Systech (International) Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 together with the comparative figures for the corresponding period of last year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2004

	<i>Note</i>	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
Turnover	1	308,238	109,339
Cost of sales		<u>(211,651)</u>	<u>(63,294)</u>
Gross profit		96,587	46,045
Other revenues	1	460	67
Research and development costs		(11,599)	(7,743)
Selling and distribution expenses		(1,667)	(994)
Administrative expenses		(11,669)	(9,510)
Other operating expenses		(108)	(142)
Operating profit	2	<u>72,004</u>	<u>27,723</u>
Finance costs	3	(2)	(2)
Share of result of an associated company		<u>(194)</u>	<u>—</u>
Profit before taxation		71,808	27,721
Taxation	4	<u>(12,641)</u>	<u>(5,036)</u>
Profit attributable to shareholders		<u>59,167</u>	<u>22,685</u>
Dividends	5	<u>63,054</u>	<u>—</u>
Earnings per share (US cents)	6		
Basic		<u>2.48</u>	<u>1.09</u>
Diluted		<u>2.48</u>	<u>—</u>

1 Turnover, revenues and segment information

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

	Group	
	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
Turnover		
Sale of goods	<u>308,238</u>	<u>109,339</u>
Other revenues		
Bank interest income	395	67
Other income	65	—
	<u>460</u>	<u>67</u>
Total revenues	<u>308,698</u>	<u>109,406</u>

(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*

	Group	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
Taiwan	121,791	32,226
Hong Kong SAR	97,579	47,277
Japan	62,873	24,004
Korea	11,425	3,196
Singapore	8,690	276
Mainland China ("China")	4,123	11
United States of America	400	1,947
Others	1,357	402
	<u>308,238</u>	<u>109,339</u>

2 **Operating profit**

	Group	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
Operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on disposal of other investment	<u>180</u>	<u>—</u>
<u>Charging</u>		
Loss on disposal of fixed assets	—	1
Auditors' remuneration	108	28
Depreciation of owned fixed assets	3,932	1,089
Depreciation of leased fixed assets	5	2
Operating leases for land and buildings	490	343
Amortisation of patents and intellectual property included in research and development costs	675	900
Amortisation of goodwill included in administrative expenses	291	317
Staff costs (excluding Directors' emoluments)	10,868	10,414
Net exchange losses	156	77
Provision for doubtful debts	1,174	198
Provision for obsolete inventories	<u>4,232</u>	<u>768</u>

3 Finance costs

	Group	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
Interest element of finance leases	<u>2</u>	<u>2</u>

4 Taxation

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

	Group	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
Taxation:		
Hong Kong profits tax	13,385	4,823
(Over)/under provisions in prior years	(186)	152
Deferred taxation	<u>(558)</u>	<u>61</u>
Taxation charge	<u>12,641</u>	<u>5,036</u>

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

5 Dividends

	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
(a) Dividend attributable to the previous year, approved and paid by Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholder during the year:		
2002 final, paid, of HK\$0.26 (approximately 3.4 US cents) per ordinary share (<i>Note (i)</i>)	—	6,122
(b) Dividend declared by the Company:		
2004 first interim, attributable to the results of 2003, paid, of HK\$0.066 (approximately 0.85 US cents) per ordinary share (<i>Note (ii)</i>)	16,039	—
2004 second interim, paid, of HK\$0.026 (approximately 0.34 US cents) per ordinary share (<i>Note (iii)</i>)	8,360	—
2004 final, proposed of HK\$0.12 (approximately 1.54 US cents) per ordinary share (<i>Note (iv)</i>)	38,655	—
	<u>63,054</u>	<u>—</u>

Notes:

- (i) The number of SSL's shares in issue at the time of the payment of the 2002 final dividend was 183,290,271 shares.
- (ii) On 3rd February 2004, the Directors declared the first interim dividend of HK\$0.066 per ordinary share. The first interim dividend was paid on 1st March 2004.
- (iii) On 27th July 2004, the Directors declared the second interim dividend of HK\$0.026 per ordinary share. The second interim dividend was paid on 7th September 2004.

- (iv) At a meeting held on 9th March 2005, the Directors proposed a final dividend of HK\$0.12 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

6 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US\$59,167,000 (2003: US\$22,685,000).

The basic earnings per share is based on the weighted average of 2,385,681,198 (2003: 2,074,852,711) ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 2,074,852,711 ordinary shares were deemed to be in issue since 1st January 2003.

The diluted earnings per share information is based on 2,385,892,274 (2003: 2,074,852,711) ordinary shares which is the weighted average number of shares in issue during the year plus the weighted average number of 211,076 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised. Dilutive earnings per share information was not presented for the year ended 31st December 2003 as these was no dilutive potential ordinary shares during the year ended 31st December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

2004 was a year of growth and opportunity for the Group. A few developments were noted in the year. Firstly, in the first half of the year, it was a supplier market whereas the second half was a buyer market. No matter under what circumstances, with the experience and proactive actions of the management team, the Group were able to find ways to take advantage of the changes and to generate and capture more businesses — leading to outstanding financial performance of the Group. Secondly, the mobile phone market grew by roughly 30%. The growth was also accompanied by the increasing popularity of colour displays and dual displays. This trend definitely benefited the Group's business. Thirdly, the Group was able to execute its strategy by offering customers more valuable display IC products at the right time and right price, thereby gaining more customers. Fourthly, the Group's business vision was proved to be correct as the Group began to qualify more foundries well ahead of the business ramp-up. Therefore, the Group was able to capture more production capacity to meet increasing demand while the business was at the peak. Lastly, the fabless business model made the Group more flexible and responsive to the market changes.

Well before the demand for display ICs surged in early 2004, the Group had already begun qualifying more foundries in 2003. As a result, the Group could ramp up its business relatively easier because of more secure and sizeable wafers supply. Furthermore, the Group also spent considerable time and efforts in enlarging its customer base. Regarding design-wins, a measure of how ready a customer is to use the Group's display ICs, the Group won 130 design-wins in the year, an 16% increase year-on-year. The Group believes its global market share in mobile phone display IC was roughly 16% in 2004, assuming 30% of global mobile phones had dual displays and a total of 680 million mobile phones were shipped in 2004.

Looking back, there were a number of memorable moments in 2004 to share with the stakeholders of the Group. The most notable event was the flotation of the Company. The listing marked a distinct achievement in the Group's history. Despite the market sentiment started to cool off at the time of listing, the Group drew significant interests from institutional investors and the IPO was well received. Within five months after listing, the Company was picked as one of the constituent stocks within the Hang Seng Composite Index. The index inclusion, decided by the Hang Seng Index Advisory Committee, should reflect that the Group had achieved a meaningful market capitalization and liquidity.

With the aim of increasing the free float and liquidity of the Company's shares, the Company organized a share placement mainly on behalf of its venture capital shareholders. The share placement was well planned and executed, and concluded at a tight discount to the closing price of 11 October, 2004. The share placement, representing roughly 11% of the Company's then existing capital, not only gave an opportunity to the venture capital shareholders to exit part of their holdings, but also partly removed the share overhang that concerned some institutional investors. During the period from the share placement to 31 December, 2004, the average daily volume of the Company's shares was 16.7 million shares, up from 11.3 million shares for the period from the date of IPO to the date of share placement. According to information that was available to the Group as at 31 December 2004, the percentage of the Company's shares that were in the hands of the public exceeded 60% of the Company's total number of issued shares.

Last but not least, the Group is very proud to have received a great number of awards granted by various entities, ranging from the customers, semiconductor industry, to the investment community.

Financial Review

Turnover and profit

For the whole year of 2004, the Group increased its turnover by 182% to US\$308 million. The growth was significant and proved that the Group's strategic decision of focusing on colour display ICs, enlarging customer base as well as increasing market share was paying off. By the same token, gross profit also grew to US\$96.6 million, an increase of 110% year-on-year. As the Group intentionally set an aggressive and competitive pricing strategy to gain more market share, the gross profit margin for 2004 was 31.3%, compared to 42.1% in 2003.

The Group's net profit for the year was US\$59.2 million, representing an increase of 161% over the previous year. Net profit margin was 19.2%, compared to 20.8% in 2003. Throughout the year, the Group took every operational measure to contain the costs, thereby ensuring that net profit growth was always higher than the growth of gross profit.

Liquidity and financial resources

Net cash flow from operations during the year was US\$39.4 million. The net cash of the Group amounted to US\$125 million at year end, compared to US\$37.2 million as at 31 December 2003. The change in cash position was mainly a result of (1) IPO proceeds of US\$91.9 million received in April 2004 (2) Interim dividends paid of US\$24.4 million (3) Capital spending of US\$8 million and (4) Working capital requirements of US\$30.3 million due to business expansion. Regarding the proceeds raised from the IPO, the Group will continue to invest in products development, to use cash in securing production capacity and to keep a certain level of cash for general corporate purposes. As at 31 December 2004, the Group had no borrowings and its cash balance was mainly deposited in interest-bearing accounts.

All of the Group's account receivables and most of its payables are quoted in US dollars. The Group closely monitors foreign exchange rates and attempts to obtain favorable exchange rates for conversion of US dollars into other currencies for the payment of local operating expenses. During the review period, the Group did not use any derivative instruments to hedge its foreign currency exposure as it considered the exposure was insignificant.

In light of the Group's record net profit made and relatively rich cash position, the Board of the Group resolved to declare a final dividend of 12 HK cents per share to shareholders whose names appear on the Register of Members of the Group on 8 April 2005. In summary, the full year dividends per share of 14.6 HK cents represent a payout ratio of approximately 80%, or a yield of 8.3% based on the IPO price of HK\$1.75 on 8 April 2004.

Capital expenditure and contingent liabilities

In 2004, the Group spent a total of US\$8.0 million in capital expenditure, comprising computer hardware, research and development equipment, critical packaging and testing equipment. Currently, all research and development equipment is located in the Group's offices while all production equipment is consigned to sub-contractors. As at 31 December 2004, the Group had no material capital commitments or contingent liabilities.

Business Review

Products shipment

In the first half of 2004, the Group's business growth was somewhat limited by the global shortage of wafers. In the second half, the Group managed to qualify more production capacity and met the customers' orders. The book to bill ratio was 1.2 for 2004, indicating a growing trend of the Group's business and a comfortable level of backlog orders going into 2005. In total, the Group shipped 157 million of display ICs, a growth of 120.8% year-on-year. The driver for the spectacular growth was the popularity of the Group's colour display ICs. Due to the change in product mix, i.e. more colour display ICs shipped in 2004, the blended average selling price of the Group's products increased from US\$1.53 in 2003 to US\$1.96 in 2004.

The Group's growth of monochrome STN display ICs was 5.6% in 2004, despite a slowing demand in the market. In connection with the colour STN display ICs, it grew by 336.6%. The growth was attributable to a number of factors, including more new products launched and dedicated customer support, right pricing and time-to-market. Another encouraging result was the volume shipment of TFT display ICs, which were commercially used in top brand mobile phone such as Motorola V3. The launching of TFT display ICs demonstrated the Group's ability to execute and deliver the products planned in its products roadmap. Helped by the surging demand for MP3 players globally, the Group recorded a very healthy growth in respect of its OLED display ICs, marking an annual growth rate of 127.4%.

Display ICs shipped (million units)	2004	2003	Growth (%)
Monochrome STN	47.1	44.6	5.6
Colour STN	88.2	20.2	336.6
TFT	7.1	0.0	NA
OLED	14.1	6.2	127.4
Miscellaneous	<u>0.5</u>	<u>0.1</u>	400.0
Total	<u>157.0</u>	<u>71.1</u>	120.8

Note: Miscellaneous includes graphic controller, PDA and others.

To maintain the Group's leading and competitive position in the market, the Group had been taking the following cost reduction measures during the year, namely

- Adoption of more advanced technology
- High level of functions integration
- Yield improvement
- Reduction in processing steps
- Strategic pricing with suppliers
- Qualification of foundries and suppliers

New products and customers

The Group had 16 new products altogether go to production in 2004. Most of them are mobile phone related display ICs, supplied directly to module makers and eventually used by global mobile phone brand names. To promote its latest products and technologies, the Group participated in a number of exhibitions and conferences worldwide in 2004.

In recognition of the Group's product quality and customer services, the Group received more than 10 awards from its customers in 2004.

Backed by its extensive sales network and all-round customer services, the Group further enlarged its customer base. For instance, the number of customers with more than US\$1 million business with the Group increased from 11 in 2003 to 28 in 2004. At present, the Group serves more than 70 module makers globally, a majority of them are located primarily in Asia.

The Group believes that the top global mobile phone brand names used or have started to use the Group's display ICs. In the non-mobile phone area, the Group also introduced a number of key products that either won industry awards or volume business. For instance, the Group's specialized e-paper driver controller IC won the Grand Award and the Gold Award in the annual HKEIA Award for Outstanding Innovation and Technology Products in October 2004. Additionally, the Group produced a special type of graphics controller for high-end printers as well as OLED display ICs for various brands of MP3 players.

Research and development

Research and development capability is one of the Group's core competences. The Group's management team regularly keeps track of the Group's research output and its customers' new requirements in connection with product features or specifications. The Group's ultimate research effort is to make the ICs smaller, faster, more power efficient and most importantly to exceed customers' expectations.

In the past twelve months, the research and development costs amounted to roughly US\$11.6 million. The number of employees in the research and development increased to more than 120 as at 31 December 2004. The headcount increase is part of the Group's focused business expansions as the Group has more business opportunity from customers and has to stay ahead of competition with its innovative products for tomorrow's applications. Going forward, the Group will continuously strengthen its research and development team.

The Group's existing and future products are supported by 3 technology centers, namely Hong Kong, Shenzhen and Singapore. Hong Kong research and development team provides a full range of product developments, while Shenzhen operation takes on special projects and Singapore operation focuses on multimedia ICs and intellectual property development. The Singapore Technology Center was set up in April 2004.

On the front of wafer technology, the Group uses various wafer process geometry up to 0.18 μ m. A major portion of ICs in production belongs to the 0.25 μ m or 0.35 μ m category. Lastly, the Group filed 4 patents and published 6 technical articles in 2004.

Prospects

Mobile display

The Group had a phenomenal year in 2004 with respect to both turnover and net profit growth. In 2005, the Group forecasts a majority of turnover will be coming from the mobile display area. Within the mobile display area, four different display technologies will be expected to see different growths.

Monochrome display ICs are expected to experience a decline in units shipment owing to the fact that monochrome display will not be in vogue among mobile phone users and other consumers. On the other hand, TFT displays will be emerging strongly given its increasing popularity. That said, the Group maintains the view that conventional CSTN display will be able to keep its good position in the mobile phone area. As regards OLED display, the Group believes that it may take some time for mobile phone users to identify the unique features and advantages of OLED displays. Nevertheless, the application of OLED display in MP3 players has already gathered its strong momentum.

In order to fend off pricing pressure, the Group will incorporate more value-added features into its new family of display ICs with the use of new wafer process technology. Moreover, the Group will regroup its resources so as to target key customers as well as push ahead with its new products.

Large Display

As planned, the Group in late 2004 concentrated on refining the large display driver ICs and qualifying them with potential panel makers. In 2005, the Group plans to deliver large display driver ICs in the first half. And the ICs will be used in LCD TVs, LCD monitors as well as notebook computers.

Currently the large display driver ICs market is a very big market and fairly competitive. The Group's products will be competitive in cost and more advanced in performance. As a result, the large display IC business will make financial contribution to the Group's turnover and net profit. In the Group's opinion, entering into large display market makes perfect sense as it also paves the way for the Group to tap into digital broadcasting opportunity in the future. In addition, manufacturing large display ICs will bring economy of scale to the Group's mobile display area.

New Display

New display ICs can be used in consumer electronic products and new applications. Examples are high-end digital camera viewfinders, head-mount devices, flexible timepiece and electronic price tags. As mentioned earlier, the Group's had successfully launched e-paper driver controller IC. At the moment, the Group is exploring the business opportunities in flexible display solution that may find its home in the retailing and logistics sectors.

Miscellaneous

Apart from the display ICs, the Group plans to launch new products such as melody and multimedia ICs for the mobile phones in 2005. The Group expects the turnover contribution from these new products to be minimal for 2005. However, the growth of multimedia area in the coming years cannot be ignored.

The Group is, by all means, a technology company. Given its business nature, the Group will observe and acquire the latest technology that is relevant to its research or products. To this end, the Group will establish an investment arm to make corporate venture investing with the intention of investing in relevant technologies as well as achieving non-organic growth.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period from the Listing Date to 31st December 2004 (the “Listing Period”), the Company did not redeem any of the Company’s shares. During the Listing Period, neither the Company nor any of its subsidiaries purchased or sold any of the Company’s shares.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the then appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants in February 2002 and the relevant provisions in the latest edition of the Listing Rules.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors and a non-executive Director, namely Messrs. Choy Kwok Hung, Patrick, Sun, Patrick and, Mr. Wong Yuet Leung, Frankie. Two meetings were held during the current financial year.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from 4 April 2005 to 8 April 2005 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Registrars, Tricor Investor Services Limited, G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 pm on 1 April 2005.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit to the Stock Exchange on 9 March 2005 the financial information required to be disclosed under paragraphs 45(1) to 45(3) (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, 9 March 2005

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.