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**SOLOMON  
SYSTECH**

**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock code: 2878)

## **2010 FINAL RESULTS ANNOUNCEMENT**

### **FINANCIAL HIGHLIGHTS**

- Sales grew by 37% to US\$84.7 million
- Gross profit grew by 25% to US\$25.6 million
- Net profit was US\$1.0 million
- Basic earnings per share was 0.04 US cent (0.33 HK cent)
- The Board does not recommend the payment of final dividend for the year ended 31 December 2010
- Book to bill ratio for the year ended 31 December 2010 was 1.0

## FINAL RESULTS

The directors (the “Directors”) of Solomon Systech (International) Limited (the “Company”) are pleased to announce the consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2010 together with the comparative figures for the corresponding year as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 US\$'000	2009 US\$'000
Sales	5	84,735	61,832
Cost of sales		(59,160)	(41,449)
Gross profit		25,575	20,383
Research and development costs	7	(15,083)	(14,259)
Selling and distribution expenses	7	(4,661)	(3,266)
Administrative expenses	7	(8,883)	(8,509)
Other income		56	131
		(2,996)	(5,520)
Finance income – net	6	4,734	6,847
Share of results of associated companies		(997)	(1,858)
Profit/(loss) before income tax		741	(531)
Income tax credit	8	299	1,216
Profit for the year		1,040	685
Attributable to:			
- The equity holders of the Company		1,040	684
- Non-controlling interests		—	1
		1,040	685
Earnings per share for profit attributable to the equity holders of the Company: (expressed in US cent per share)	9		
- Basic		0.04	0.03
- Diluted		0.04	0.03
Dividend	10	—	3,166

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 US\$'000	2009 US\$'000
Profit for the year	1,040	685
Other comprehensive income for the year:		
- Currency translation differences	769	4
Total comprehensive income for the year	1,809	689
Attributable to:		
- The equity holders of the Company	1,809	688
- Non-controlling interests	—	1
	1,809	689

## CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 US\$'000	2009 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and intangible assets		—	—
Prepaid operating lease		1,185	—
Property, plant and equipment		8,518	6,621
Investments in associated companies		990	4,493
Available-for-sale financial assets		2,506	2,346
		<b>13,199</b>	13,460
<b>Current assets</b>			
Inventories		13,778	10,302
Trade and other receivables	11	22,477	13,456
Financial assets at fair value through profit or loss		25,034	20,035
Other financial assets		1,278	2,713
Pledged bank deposits		130	130
Short-term fixed deposits		27,219	45,318
Cash and cash equivalents		51,102	44,798
		<b>141,018</b>	136,752
<b>Total assets</b>		<b>154,217</b>	150,212
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital		31,619	31,542
Reserves			
Proposed dividend		—	3,158
Own shares held		(279)	(858)
Others		103,621	101,989
<b>Total equity</b>		<b>134,961</b>	135,831
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Obligations under finance leases		35	7
Other payables	12	—	133
Bank loan		686	708
Deferred income tax liabilities		50	50
		<b>771</b>	898
<b>Current liabilities</b>			
Obligations under finance leases		12	6
Trade and other payables	12	17,161	12,391
Bank loan		95	86
Deferred income		217	—
Current income tax liabilities		1,000	1,000
		<b>18,485</b>	13,483
<b>Total liabilities</b>		<b>19,256</b>	14,381
<b>Total equity and liabilities</b>		<b>154,217</b>	150,212
<b>Net current assets</b>		<b>122,533</b>	123,269
<b>Total assets less current liabilities</b>		<b>135,732</b>	136,729

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. General information

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor companies specializing in the design, development and sales of proprietary integrated circuits (“IC”) products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Companies Law”). The address of its registered office is P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in Hong Kong Special Administrative Region (“Hong Kong”) is 6/F., No.3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The Company has been listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 8 April 2004.

This consolidated financial information is presented in US dollars, unless otherwise stated. This consolidated financial information was approved for issue by the Board of Directors (the “Board”) on 24 March 2011.

### 2. Key events

On 17 March 2010, one of the associated companies that the Group held 20.6% equity interest as at 31 December 2009 issued 4,120,098 new shares to strategic investors. As a result, the Group’s holding was diluted to 10.3%. The associated company would no longer be accounted for under equity method of accounting as the Group has had no significant influence over it since this issue of shares. The Group’s retained investment in this associated company was subsequently recognized as an available-for-sale financial asset in the consolidated balance sheet at a revised carrying amount represented by the fair value of the retained investment at the date when significant influence ceased.

On 19 March 2010, a new subsidiary, namely Solomon Systech (Beijing) Limited (“SSBJ”), in Beijing, Mainland China (“China”) with registered capital of US\$8.0 million was set up. US\$4.2 million was injected to the entity for the year ended 31 December 2010. The balance of registered capital is required to be paid up by March 2012.

On 4 June 2010, the Group entered into the Sale and Purchase Agreement for the disposal of the entire interest in an available-for-sale financial asset for a consideration of US\$5.5 million, which is higher than the carrying value (amounting to US\$2.3 million) on the balance sheet. The disposal was completed on 30 November 2010 and the total consideration was received on 3 January 2011.

On 8 November 2010, SSBJ successfully tendered for the land use rights, in Beijing, China, at an operating lease amount of approximately US\$1.2 million. CNY1.6 million (approximately US\$0.2 million) was paid in October 2010 and the balance as required for the operating lease was settled in January 2011.

### 3. Basis of preparation

The consolidated financial information of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

#### 4. Significant accounting policies

The preparation of the consolidated financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New, revised and amended standards and interpretations to existing standards effective in 2010

The Group has adopted the following new, revised and amended standards and interpretations to existing standards ("new HKFRS") that have been issued and are effective for the Group's financial year commencing on 1 January 2010:

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• HKAS 27 (Revised)	Consolidated and separate financial statements
• HKAS 39 (Amendment)	Financial instruments: recognition and measurement - eligible hedged items
• HKFRS 1 (Revised)	First-time adoption of HKFRSs
• HKFRS 3 (Revised)	Business combinations
• HKFRS 1 (Amendment)	Additional exemptions for first-time adopters of HKFRSs
• HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
• HKFRS 5	Non-current assets held for sale and discontinued operations (and consequential amendment to HKFRS 1 "First-time adoption")
• HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
• HK(IFRIC) - Int 18	Transfers of assets from customers
• Various improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants in May 2009	

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##### **HKFRS 3 (Revised) - Business combinations**

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the revised standard requires goodwill to be determined only at the acquisition date other than at the previous stages. The acquirer should re-measure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed.

##### **HKAS 27 (Revised) - Consolidated and separate financial statements**

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control ("economic entity model"). These transactions will no longer result in goodwill or gains and losses. When control over a previous subsidiary is lost, any remaining interest in the entity is re-measured to fair value and the resulting gain or loss is recognized in the income statement.

Saved as aforesaid, the adoption of the new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

- (b) New, revised and amended standards and interpretations to existing standards that are not effective and have not been early adopted by the Group

The following new, revised and amended standards and interpretations to existing standards have been issued, but not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:

		<b>Effective for annual periods beginning or after</b>
• HKAS 24 (Revised)	Related party disclosures	1 January 2011
• HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
• HKFRS 9	Financial instruments	1 January 2013
• Amendment to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
• Amendment to HKFRS 1	First-time adoption of HKFRSs - severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
• Amendment to HKFRS 7	Disclosures - transfers of financial assets	1 July 2011
• HK(IFRIC) - Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
• Amendment to HK(IFRIC) - Int 14	Prepayments of a minimum funding requirement	1 January 2011
• Various improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants in May 2010		

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

## 5. Segment information

During the year, the Group is principally engaged in the design, development and sales of proprietary IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

The Group has been operating in one single operating segment, i.e. the design, development and sales of proprietary IC products and system solutions.

The chief operating decision-makers have been identified as the executive directors and senior management led by the Group CEO (Managing Director). The executive directors and senior management review the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

Sales amounted to US\$84,735,000 and US\$61,832,000 for the years ended 31 December 2010 and 2009 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. The Group mainly sells to customers located in Korea, Hong Kong, Taiwan and China.

## Sales

	<b>2010</b>	2009
	<b>US\$'000</b>	US\$'000
Korea	<b>31,761</b>	7,909
Hong Kong	<b>19,878</b>	28,380
Taiwan	<b>12,857</b>	10,353
China	<b>8,782</b>	9,601
Japan	<b>3,561</b>	1,667
South East Asia	<b>1,814</b>	1,769
United States of America ("USA")	<b>1,205</b>	255
Others	<b>4,877</b>	1,898
	<b>84,735</b>	61,832

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

## Total assets

	<b>2010</b>	2009
	<b>US\$'000</b>	US\$'000
Hong Kong	<b>127,701</b>	130,686
China	<b>15,383</b>	11,004
Taiwan	<b>9,771</b>	7,319
Others	<b>1,362</b>	1,203
	<b>154,217</b>	150,212

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

## Capital expenditures

	Prepaid operating lease		Property, plant and equipment		Investment in associated companies	
	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Hong Kong	—	—	<b>538</b>	725	—	—
China	<b>1,185</b>	—	<b>2,311</b>	198	—	690
Taiwan	—	—	—	23	—	—
South East Asia	—	—	<b>1,270</b>	94	—	—
Others	—	—	<b>24</b>	—	—	—
	<b>1,185</b>	—	<b>4,143</b>	1,040	—	690

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

## 6. Finance income - net

	2010 US\$'000	2009 US\$'000
Income:		
- Gain on disposal of an available-for-sale financial asset	3,186	95
- Gain on disposal of financial assets at fair value through profit or loss	141	1,017
- Interest income from deposits	1,167	2,104
- Dividend income	240	186
- Others	73	48
- Net unrealizable gain/(loss) from financial assets at fair value through profit or loss:		
- Fair value gain	1,063	3,529
- Fair value loss	(1,123)	(117)
Expenses:		
- Interest element of finance leases	(1)	(1)
- Interest expense of bank loan	(12)	(14)
	<b>4,734</b>	<b>6,847</b>

## 7. Expenses by nature

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

	2010 US\$'000	2009 US\$'000
Cost of inventories sold	59,090	41,683
Gain on disposal of property, plant and equipment	(14)	(9)
Auditor's remuneration	160	148
Depreciation of owned property, plant and equipment	2,993	2,762
Depreciation of leased property, plant and equipment	8	3
Operating leases for land and buildings	1,307	1,182
Employee benefit expenses (excluding Directors' emoluments)	16,797	15,553
Directors' emoluments	1,215	1,248
Net exchange gain	(62)	(104)
Write-back of provision for impairment of receivables	—	(27)
Provision for/(write-back of) provision for obsolete or slow moving inventories	181	(3,538)

## 8. Income tax

Hong Kong and overseas tax has been provided at the rate of 16.5% (2009: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively. No provision for Hong Kong income tax has been made as the Group has no estimated assessable profits for the years ended 31 December 2010 and 2009.

	2010 US\$'000	2009 US\$'000
Current income tax:		
- Hong Kong	—	—
- Overseas	2	—
Write-back of income tax provision in prior years	(301)	(1,158)
Deferred income tax	—	(58)
Income tax credit	(299)	(1,216)

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

	2010 US\$'000	2009 US\$'000
Profit/(loss) before income tax	741	(531)
Income tax calculated at a tax rate of 16.5%	122	(88)
Income not subject to tax	(831)	(1,309)
Expenses not deductible for tax purposes	334	274
Income tax losses not recognized	377	1,065
Write-back of income tax provision in prior years	(301)	(1,158)
Income tax credit	(299)	(1,216)

Hong Kong income tax rate for 2010 is 16.5% (2009: 16.5%).

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US\$5,611,000 (2009: US\$5,234,000) in respect of losses amounting to US\$34,006,000 (2009: US\$31,722,000) that can be carried forward against future taxable profits. These tax losses have no expiry date.

## 9. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to the equity holders of the Company of US\$1,040,000 (2009: US\$684,000).

The basic earnings per share is based on the weighted average number of 2,442,244,818 (2009: 2,429,743,177) ordinary shares in issue during the year excluding own shares held during the year.

The diluted earnings per share is based on 2,454,078,716 (2009: 2,457,281,028) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming conversion of all dilute/potential share options outstanding but excluding unallocated own shares held during the year. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	2009
Weighted average number of ordinary shares in issue	2,442,244,818	2,429,743,177
Adjustments for:		
– allocated own shares under Share Award Scheme	6,935,562	16,330,699
– share options	4,898,336	11,207,152
Weighted average number of ordinary shares for diluted earnings per share	2,454,078,716	2,457,281,028

## 10. Dividend

	2010 US\$'000	2009 US\$'000
Final dividend attributed to the year:		
– 2009 final dividend, paid, of HK\$0.01 (approximately 0.13 US cent) per ordinary share <sup>(i)</sup>	—	3,166
Dividend attributed to the year	—	3,166

- (i) At a meeting held on 20 April 2010, the Board recommended the payment of a final dividend of HK\$0.01 per ordinary share, totaling HK\$24,533,000 (approximately US\$3,166,000) for the year ended 31 December 2009. The dividend was paid on 18 June 2010.

## 11. Trade and other receivables

	2010 US\$'000	2009 US\$'000
Trade receivables	13,327	10,546
Less: provision for impairment of receivables	—	—
Trade receivables - net	13,327	10,546
Deposits, prepayments and other receivables <sup>(i)</sup>	9,150	2,910
	<b>22,477</b>	<b>13,456</b>

(i) The figure included US\$5,532,000 proceeds on disposal of an available-for-sale financial asset.

The Group's sales to corporate customers are mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables based on overdue days is as follows:

	2010 US\$'000	2009 US\$'000
Current	10,876	8,166
1 - 30 days	2,330	2,029
31 - 60 days	120	222
61 - 90 days	—	72
91 - 180 days	—	27
181 - 365 days	1	30
	<b>2,451</b>	<b>2,380</b>
	<b>13,327</b>	<b>10,546</b>

As at 31 December 2010, trade receivables of US\$2,451,000 (2009: US\$2,380,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since the majority of the overdue sum has been settled after the balance sheet date.

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

	2010 US\$'000	2009 US\$'000
US Dollar (USD)	20,857	12,314
Hong Kong Dollar (HKD)	805	768
Singapore Dollar (SGD)	122	98
Other currencies	693	276
	<b>22,477</b>	<b>13,456</b>

As at 31 December 2010 and 2009, no trade receivables was impaired and provided for.

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

	2010 US\$'000	2009 US\$'000
At 1 January	—	60
Write-back of provision for impairment of receivables	—	(27)
Uncollectible receivables written off during the year	—	(33)
At 31 December	—	—

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

## 12. Trade and other payables

	2010 US\$'000	2009 US\$'000
Trade payables	11,835	9,283
Accrued expenses and other payables <sup>(i)</sup>	5,326	3,241
	17,161	12,524
Other payables – non-current portion	—	(133)
	17,161	12,391

- (i) The figure included CNY6,222,000 (approximately US\$943,000) balance payment of the prepaid operating lease in respect of the land use rights in Beijing, China.

At 31 December 2010, the ageing analysis of the trade payables based on overdue days is as follows:

	2010 US\$'000	2009 US\$'000
Current	8,524	8,261
1 - 30 days	3,201	947
31 - 60 days	36	19
61 - 90 days	34	8
Over 90 days	40	48
	11,835	9,283

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

	2010 US\$'000	2009 US\$'000
US Dollar (USD)	13,126	10,290
Hong Kong Dollar (HKD)	1,820	1,530
Chinese Yuan (CNY)	1,550	424
Other currencies	665	280
	17,161	12,524

## 13. Comparative figures

Certain comparative figures in the Group's consolidated income statement relating to the results arising from the Group's investments in financial instruments and associated companies, namely "other income", "finance income - net" and "share of results of associated companies" have incorporated figures previously classified under "other gain/(loss) - net" and "other operating expenses" in order to conform to the current year's presentation for a fairer presentation of the Group's activities. These reclassifications have no effect on the Group's consolidated financial position as at both 31 December 2009 and 2010, or the Group's profit/loss or cash flows for the years ended 31 December 2009 and 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overview

For the year ended 31 December 2010, the Group's sales totaled US\$84.7 million (2009: US\$61.8 million) and the book to bill ratio stood at 1.0 (2009: 1.0). The market showed strength of recovery in 2010 as demand for electronic products gathered strength. On the other hand, the wafer capacity for the overall semiconductor industry was very tight due to low capital spending and reductions in supply during the credit crisis years of 2008 and 2009. Through closely monitoring the business, the Group managed to fulfill the incremental demand and recorded a revenue growth of 37% year-on-year.

#### Sales and Profit

The Group recorded a 53% increase year-on-year in shipment quantity, and a 11% year-on-year drop in the blended average selling price of its products which led to net sales of US\$84.7 million, representing a 37% growth over the 2009 sales. The increase was mainly due to demand recovery for semiconductor products and new business generated with newly developed products. But the revenue increase was also limited by average selling price erosion and tight wafer supply.

Gross profit was US\$25.6 million, up by 25% compared with last year (2009: US\$20.4 million). The Group's gross margin was 30% compared with 33% in 2009. The increase in gross profit was because of the rise in sales revenue. Gross margin for 2010 effectively remained the same as last year in the absence of any significant one-time sell off of slow moving inventory amounting to US\$2.5 million for which provisions were made in previous years as noted in 2009 report. Notwithstanding the higher manufacturing cost due to the tight wafer supply, the Group has (1) redoubled its effort to secure wafer supplies; (2) improved its manufacturing productivity through product yield improvement; (3) utilized fully its own manufacturing assets; and (4) managed to sell a higher percentage of products with relatively better profit margin contributions to maintain a stable profit margin.

The Group has remained vigilant in controlling operating expenses. Total expenses, including research and development cost ("R&D expenses"), selling and distribution expenses ("S&D expenses") and administrative expenses, were US\$28.6 million, up by US\$2.6 million, representing a 10% increase over last year. During the year, the Group has relaxed an array of expense control and belt tightening measures noted in 2009 report.

The Group continued to invest in R&D and business development, accounting for around half of total expenses incurred in 2010. The Group remained selective in its R&D spending. R&D expenses were US\$15.1 million which rose by about 6% over the spending in 2009.

S&D expenses were increased by US\$1.4 million, up 43% from 2009, to support the sales growth of 2010 and beyond.

Administrative expenses remained stable with slight increase of US\$0.4 million, up 4% year-on-year after the gradual relaxation of certain belt-tightening measures in effect since 2H 2009.

During the year, the Group recognized a net finance income of US\$4.7 million (2009: US\$6.8 million), of which a US\$3.2 million gain on a disposal of available-for-sale financial assets ("AFS") and US\$1.6 million from interest income and earnings from financial assets. A net unrealized loss of US\$0.1 million was noted from the mark-to-market valuation of the investment in financial assets at fair value through profit or loss ("FVTPL") portfolio as at 31 December 2010 (2009: net unrealized gain: US\$3.4 million). The Group also noted US\$1.0 million (2009: US\$1.9 million) for the impairment and the sharing of losses of investments in associated companies.

Profit before income tax was US\$0.7 million (2009 loss: US\$0.5 million). The Group recorded a net profit attributable to the Company's equity holders of US\$1.0 million (2009: US\$0.7 million, which included a special tax credit of US\$1.2 million).

## Liquidity and Financial Resources

Net cash used in operating activities during the year was US\$2.4 million (2009: US\$10.1 million). Total cash and bank deposits and equivalents (including other financial assets) of the Group amounted to US\$79.6 million at year-end, compared to US\$92.8 million as at 31 December 2009. The change in cash position was mainly a result of (1) net outflow from operations, which amounted to US\$2.7 million because of a net increase in working capital; (2) dividend payment of US\$3.2 million; (3) investment in equipment of US\$4.1 million; (4) net increase of investment in FVTPL of US\$5.0 million; (5) interest received of US\$1.6 million; and (6) payment of US\$0.2 million of an operating lease in respect of the land use rights in Beijing, China.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening infra-structure in mainland China to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate purposes. As at 31 December 2010, the Group had no major borrowings other than US\$0.8 million in a mortgaged bank loan for the purchase of office property in Hsinchu, Taiwan. The Group's cash balance was mainly invested in various bank deposits.

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

To retain the current year's earnings, the Board of the Company recommended no final dividend payable for the year ended 31 December 2010.

## Capital Expenditure and Contingent Liabilities

On 17 March 2010, Advanced Photoelectronic Technology Limited ("APT"), one of the associated companies that the Group held 20.6% equity interest as at 31 December 2009, issued 4,120,098 new shares to strategic investors. As a result, the Group's holding in APT was diluted to 10.3%. APT would no longer be accounted for under equity method of accounting as the Group has had no significant influence over APT since this issue of shares. At the same time, the Group recognized US\$0.6 million in profit arising from the transaction, which represented the difference between the fair value of the retained investment in APT and carrying amount of the investment at the date when significant influence ceased. The Group's retained investment in APT was subsequently recognized as an available-for-sale financial asset in the consolidated balance sheet at a revised carrying amount represented by the fair value of the retained investment at the date when significant influence ceased.

On 19 March 2010, the Group set up a new subsidiary, namely Solomon Systech (Beijing) Limited ("SSBJ"), in Beijing, China with registered capital of US\$8.0 million. US\$4.2 million has been injected into the entity as at 31 December 2010. The balance of registered capital is to be paid up by March 2012.

On 4 June 2010, the Group entered into the Sale and Purchase Agreement for the disposal of the entire interest in an available-for-sale financial asset for a consideration of US\$5.5 million, which is higher than the carrying value (amounting to US\$2.3 million) on the balance sheet. The disposal was completed on 30 November 2010 and the total consideration was received on 3 January 2011.

On 8 November 2010, SSBJ successfully tendered for the land use rights, in Beijing, China, at an operating lease amount of approximately US\$1.2 million. CNY1.6 million (approximately US\$0.2 million) was paid in October 2010 and the balance as required for the operating lease was settled in January 2011.

In 2010, capital expenditure was US\$5.3 million, the majority of which was related to the Group's set up and the prepaid operating lease of the land use rights in Beijing mentioned above, purchase of equipment in the Group's manufacturing subsidiary in Dongguan and licenses for product developments.

As at 31 December 2010, there was US\$2.3 million capital expenditure approved but not contracted for in respect of the preliminary set up of the land in Beijing, China to prepare for construction.

Aside from the aforesaid, the Group had no other material capital commitment or contingent liability.

## BUSINESS PERFORMANCE AND OUTLOOK

### Product Shipment

The Group shipped a total of 142.2 million display IC units during the year, representing a year-on-year increase of 53% (2009: 92.7 million units). Mobile Display business unit included STN / TFT LCD driver ICs and touch panel ICs. The total unit shipment of Mobile Display was increased by 30% to 72.1 million units (2009: 55.5 million units) for the year. The increase was mainly due to upside demand for smartphones equipped with bigger displays and new touch panel features.

Advanced Display business unit included OLED display product family and new display product family. The Advanced Display IC shipments increased to 67.0 million units, up 94% versus 2009 as OLED display technology continued to expand into new applications and matured as a cost competitive and value-added solution, replacing some of the applications that originally employed small LCD panel. The shipment of new display ICs also showed significant improvement as their application in electronic shelf labels was gaining acceptance in the market in 2010.

Large Display business unit commenced its operation in Beijing in 2010 and had delivered a small quantity of new large display TFT driver samples to customers for qualification in the second half of 2010.

Shipments of Display System Solution were up 16% to 2.9 million units per its increasing business on the relatively high unit price products: MagusCore™ multimedia system solution, image processor, graphic controller and MIPI IC.

The Group's Green Power business also shipped an initial volume of LED driver IC and LED power module in 2010.

Shipment breakdown by business units is as follows:

Units Shipped (million)	2010	2009	Change
Mobile Display	72.1	55.5	30%
Advanced Display	67.0	34.6	94%
Large Display	0.0	0.0	—
Display System Solution	2.9	2.5	16%
Green Power	0.2	0.1	100%
<b>Total</b>	<b>142.2</b>	<b>92.7</b>	<b>53%</b>

### Business Relationship

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

For Display IC business, the Group currently serves most of the major display module makers in the world. We continue to focus on approaching both display module makers and end-product manufacturers directly to ensure we deliver the most appropriate product solutions and value-added services to them. During the year, the Group further strengthened relationship with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea and Taiwan.

Regarding System Solution business, the Group provides customers with total system solutions in two focus areas: Display System Solution and Green Power. Display System Solution supports specific multimedia applications such as mobile internet devices ("MID"), pico-projectors, eBooks, personal navigation devices ("PND") for global positioning system ("GPS") and mobile digital TVs ("MDTV"). Working in alignment with independent design house ("IDHs"), the Group offers timely and total system solutions to original design manufacturers ("ODMs"). In 2010, the Group's MagusCore™ multimedia system solution had several design-win in advanced pico-projectors and MID. Green Power provides lighting system solutions to the emerging green power market including LED lighting (indoor and outdoor) and LED backlight units. In collaboration with lighting system design houses, we were able to enlarge our total solutions offering and broaden our customer base for emerging market during the year. The leading-edge technology in the system solutions business unit of the Group has further reinforced our business relationships with existing customers while attracting new key customers.

## Research and Development

Research and development capability is a core competence of the Group. Continual investment in targeted areas testifies to the Group's determination to develop and offer innovative products, expand business, capture new opportunities and stay ahead of the competition. To support business growth and stay competitive in the market, the Group has been relentlessly enhancing the features of existing products and developing new products. Numerous intellectual properties ("IP") were developed or under development during the year. They included (1) semiconductor IP such as second generation image data compression for display memory saving, non-flickering frame rate control ("FRC"), 4-channels MIPI/MDDI high speed serial interface, intelligent AXI bus manager, SDRAM controller for mDDR and DDR2, and universal non-flicker LED lighting illumination brightness control; (2) application IP including multi-touch capacitive panel sensing technology, full-HD video post-processing engine, HD digital-video input processor, full-HD LCD controller, dual-display LCD controllers for 3D, ebook accelerator engine; and (3) system IP like Android 2.1 software platform for mobile multimedia products, 16-bits MCU with configurable DSP and development platform, as well as M4/T4 standard for hearing aids for elderly phone.

In 2010, the Group had four patents granted for display driving IPs and two patents filed for operating capacitive touch panel and image compression technology with patent offices in US, China, Taiwan, Korea and Europe. We also published a technical paper covering the topic on the challenges and opportunities for China IC design in relation to LCD TV development in China in 2010. Also, the Group released several articles to the technology media to share our views about the global and China electronics industry in 2010, as well as our know-how on multimedia solutions for Android applications and dimmable LED solutions.

The Group spent roughly US\$15.1 million on research & development in 2010, representing about 53% of total expenses in 2010 and 18% of sales for the year. As at 31 December 2010, the Group had a research and development workforce of over 235, representing approximately 49% of our entire staff. The personnel mix included IC designers, product engineers as well as system application and software engineers to meet the requirements for operating total system solution business. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. We also have specialist teams in Hong Kong, Beijing, Shenzhen and Singapore possessing expertise in mix-signal high-voltage IC design, VLSI (Very-large-scale-integration) design, application software design, system applications and wireless technology.

## Human Resources

As at 31 December 2010, the Group had a work force of 480 employees, 44% were based in the Hong Kong head office and the rest were located in China, Japan, Singapore, Taiwan and the USA. Overall, there was an 13% increase in headcount compared to last year. The increase was mainly from the production side of the Group's subsidiary in Dongguan and new business centre in Beijing.

As a technology company that relies on intellectual excellence, we highly value our human resources. To reward and retain talent, the Group offers competitive remuneration to employees and constantly provides employees with training, career development programs and a first-rate working environment to make sure they enjoy working with the Group and contributing their efforts to the Group's success.

In 2010, salary reduction for Executive Directors and certain senior management continued as part of cost control measures.

New product introduction bonus and first sales incentive, which aims at driving the success of new product development and new business, remained in place and were paid to certain employees in 2010. Selected employees were granted shares under the Share Award Plan, subject to vesting, to recognize their past performance and contribution, and served as an incentive for their continuing contribution to the Group.

## PROSPECTS

With the book-to-bill ratio of 1.0 as at 31 December 2010, the first half of 2011 is expected to require our quick response to meet market trends and demand so as to generate incremental revenue with the new products developed. The Group intends to continue our march forward by delivering innovative industry-leading ICs and new system solutions for emerging high-growth applications, expanding our customer base and further developing our business in the emerging China market. We intend to keep on diversifying our product portfolio and providing fast turnkey solutions to customers. As at 31 December 2010, the Group registered a backlog of orders at around 28.6 million units for 1H 2011.

## DISPLAY IC BUSINESS

### Mobile Display

The Mobile Display business unit provides display driver ICs and touch panel ICs for small to medium size LCD displays found in mobile phones, smartphones, tablet PCs, PND, audio/video ("AV") applications, MIDs and other portable equipment. This unit supports key technologies including STN / TFT LCD and capacitive touch panel, for monochrome and color displays as well as displays with touch panel functions.

The Group believes there is a huge market potential for smartphones, tablet PCs and MID that come with high definition ("HD"), medium size display and multi-touch functions. Also, the market growth of capacitive-type touch panel to replace resistive-type will accelerate in 2011. Hence, the Mobile Display business unit will continue to develop new generation display IC products to support higher display resolution and bigger display size, including multi-touch capacitive panel controllers for display ranged from 3" to 12" and TFT driver controllers for HD display.

As the Group continues its efforts to advance its technology and introduce cutting-edge products, the Mobile Display business unit has also started the development of new display ICs to support the next generation of 3D displays.

### Advanced Display

The Advanced Display business unit groups together OLED Display product and New Display product families.

The Group continues to be the leader in the Passive Matrix OLED ("PMOLED") display IC market and has shipped over 200 million units of IC over the past 10 years.

The OLED Display business has extended its applications from consumer products to industrial equipment and health care products. The product portfolio of PMOLED driver ICs includes icon, mono, grey scale and full color to built-in Character ROMs. As the self-emissive PMOLED display is readable under any light condition and inherent a wide operating temperature range, it is suitable for the blooming market of smart power meter which requires reliably for outdoor applications even under severe weather condition.

The market for OLED display ICs in general is expected to carry on its stable growth in 2011, considering that the increasing maturity of the OLED display technology for mass production and the fact that OLED display keeps on expanding into new applications targeting different market segments from mobile phones and consumer electronics such as MP3 players, Bluetooth headsets and pocket WiFi, to industrial applications including power meters, USB bank keys, as well as office equipment and health care products.

For the New Display business, the Group maintains a positive view on the potential of ICs for this emerging business as more applications recognize the value of the new display technology, of which e-paper display is perhaps the best known kind. The Group is shipping a large volume new display ICs for electronic shelf labels, e-advertisements and USB memory devices and the design-in work will continue in 2011 involving electronic shelf labels, e-advertisements, health care products, mobile phones, portable devices, e-cards, and more.

The Group continues to enrich the product portfolio of New Display business by offering different driver IC solutions for direct segment and active matrix electrophoretic, cholesteric, zenithal bistable display and other bistable display technologies.

All-in-all, the Group believes the demand for new display ICs will surge and it will bring in new revenue streams through tapping into emerging market and new applications. Thus the Group will continue researching these and other technologies and expanding the business to ensure that we stay ahead of the competition.

## Large Display

The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. A dedicated team has been set up and moved-in to our new Beijing Technology and Business Center in 2010 in order to capture the booming large display manufacturing market in China. In 2H 2010, a new set of Source Driver and Gate Driver ICs to support our business partners in large display were developed and were undergoing customers' qualification. Initial volume shipment is to commence later this year. The team intends to work closely with the Green Power business unit on LED backlighting to provide total TV display solutions to major customers in China and Asia.

## SYSTEM SOLUTION BUSINESS

### Display System Solution

The Display System Solution business unit is a key part of the Group's success in transforming its business from IC component sales to delivering total system solutions. This business unit has shipped more than 2.9 million IC units in 2010 and the Group believes it will bring in diverse sources of revenue stream with its relatively high unit price products and gradually become an important contributor to the Group's financial performance.

The Display System Solution business unit delivers total system solutions that can (1) shorten end product time-to-market with mature software platforms; (2) generate high-performance multimedia internet solutions; (3) increase display image quality and functionality; (4) support high-speed mobile interfaces; and (5) integrate advanced wireless communication technology.

Products in production such as image processors and graphic controllers are supporting the latest consumer applications including mobile phones, baby monitor, MP4 players, PNDs, digital photo frames and other portable consumer electronic devices. Given the continual design-wins for new display controller products, the Group expects volume shipments continue for the segment in 2011.

With an early leadership in MIPI, the MIPI-related business is expected to continue to have more design-win projects in the high-speed mobile interface market in 2011.

The Group continues to expand its product offering on the high-performance MagusCore™ multimedia system solution through the launch of a third generation multimedia chip, thereby gaining new business. In 2010, several top-tier customers had successfully launched new, advanced Android-based MID and pico-projectors incorporating the MagusCore™. In 2011, the Group will further promote to the market the capability of MagusCore™, aiming at Android-based applications for the 3CC - Converged Communication, Cloud Computing and Consumer Content - enabling more advanced high volume applications such as eBooks readers, MIDs, surveillance devices and smart TVs. The Group believes the MagusCore™ system solution is poised to capture the market and help accelerate development of its business.

Moreover, the Display System Solution business unit has a strong competence in the design, development and integration of advanced wireless communication technology and devices. The unit also specializes in designing new mobile multimedia internet application solutions for end products including dual mode mobile phones, elderly phones, global positioning system ("GPS") for PNDs and mobile multimedia broadcasting technology for mobile digital TVs. It has successfully launched a few more new mobile phone solutions for dual mode and elderly market segment for top tier mobile brands' products in 2010. It has also won several design-ins on MID and pico-projector applications with its Android-based mobile system solutions. To seize the booming market opportunity for Android-based devices, the unit is working on upgrading its Android 3G mobile system solutions to keep ahead of the market trend.

## Green Power

The Green Power business unit focuses on providing energy-saving LED driver ICs and LED power module solutions for LED indoor and outdoor lighting and LED backlighting unit (BLU). The Group sees a booming LED lighting market as energy saving becomes a hot topic to reduce carbon emissions and address global warming concern, as well as to improve product performance. With the recent breakthrough on LED technology, LED can provide long life, high reliability and high cost-performance value with significant energy saving feature. These advantages render LED an ideal replacement for the traditional lighting and backlighting applications and to become the mainstream source for illumination in the coming years.

Addressing this significant business opportunity, the Green Power business unit has developed several new products and solutions such as digital dimmable LED lighting ICs, LED BLU ICs, LED power modules and light-bar solutions for general lighting, street lighting and LCD monitor/TV applications. It has started to ship a small production quantity in 2010 to customers overseas.

As this business is still at its initial stage of development, there is considerable room for growth. Therefore, the Group will keep working on new products, new technologies and new market development in 2011 to gain market share from this new market segment. Also, in order to shorten the product development cycle and market penetration time, the Green Power business unit will build alliances with potential business partners from both upstream and downstream within the supply chain to co-develop new products and meet the time-to-market requirements.

## **PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES**

The Remuneration Committee of the Company has directed HSBC International Trustee Limited, the Trustee of the Share Award Plan to utilize the funds made available under the Trust Deed to purchase 2,000,000 existing shares from the market at a purchase price of HK\$0.67 per share to replenish the pool of shares held by the Trustee pursuant to the share award scheme of the Company on 9 February 2010.

Saved as aforesaid, there was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the review period.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER**

The Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2010.

The Company has its own written guidelines on securities transactions by directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquiry to all directors, all of them were in compliance with such guidelines during the year ended 31 December 2010.

## **REVIEW OF CONSOLIDATED FINANCIAL INFORMATION**

The audit committee alongside with the internal audit team of the Company has reviewed the annual results of the Group for the year ended 31 December 2010. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's independent auditor, PricewaterhouseCoopers ("PwC HK"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC HK in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC HK on the preliminary announcement.

## **FINAL DIVIDEND**

To keep the current year earnings, the Board of the Company does not recommend the payment of final dividend for the year ended 31 December 2010.

## **CLOSURE OF REGISTERS OF SHAREHOLDERS**

The Register of Shareholders of the Company will be closed from Wednesday, 25 May 2011 to Monday, 30 May 2011 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2011 Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 May 2011.

## **PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the financial and other related information of the Company required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Group's website [www.solomon-systech.com](http://www.solomon-systech.com).

On behalf of the Board  
**Solomon Systech (International) Limited**  
LEUNG Kwong Wai  
Managing Director

Hong Kong, 24 March 2011

As at the date of this announcement, the Board comprises (a) Executive Directors – Dr. LEUNG Kwong Wai (Managing Director) and Mr. LAI Woon Ching; (b) Non-executive Directors – Mr. LAI Weide, Dr. LAM Pak Lee (Mr. SHEU Wei Fu as his alternate), Mr. LI Xiaochun and Mr. Zhao Guiwu; (c) Independent Non-executive Directors – Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick, and Mr. WONG Yuet Leung, Frankie.